SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20 – F

[ ] **Registration Statement pursuant to Section 12 (b) or (g) of The Securities Exchange Act of 1934**

or

[x] **Annual report pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001**

or

[ ] **Transition report pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934**

Commission file number _____________

WIMM-BILL-DANN FOODS OJSC

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

16 Yauzsky Boulevard, Moscow 109028 Russian Federation

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

NONE

(Title of Class)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING ONE ORDINARY SHARE, PAR VALUE 20 RUSSIAN RUBLES PER ORDINARY SHARE	NEW YORK STOCK EXCHANGE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

44,000,000 ordinary shares, par value 20 Russian rubles each, as of February 14, 2002.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: [X] No: [ ]

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 [ ] Item 18 [X]

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

Wimm-Bill-Dann Foods OJSC, or WBD, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project” and similar expressions identify forward-looking statements.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements including the achievement of the anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the impact of general business and global economic conditions and other important factors described from time to time in the reports filed by WBD with the Securities and Exchange Commission.

Except to the extent required by law, neither WBD, nor any of its respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

CURRENCIES AND EXCHANGE RATES

In this annual report, references to “US dollars” or “$” are to the currency of the United States, and references to “rubles” are to the currency of the Russian Federation.

PART I

Item 1 Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2 Offer Statistics and Expected Timetable

Not applicable.

Item 3 Key Information

A. Selected Financial Data

The selected financial data set forth below at December 31, 1999, 2000 and 2001 and for the years then ended have been derived from our audited financial statements prepared in accordance with U.S. GAAP. The selected financial data set forth below at and for the year ended December 31, 1998 have been derived from our unaudited financial statements prepared in accordance with U.S. GAAP. The selected financial data should be read in conjunction with our "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001" and "Item 5. Operating and Financial Review and Prospects." The data for 1997 have not been presented, as financial statements for this year were not reasonably obtainable at other than disproportionate expenses.

	For the periods ended December 31,			
	1998 (unaudited)	1999	2000	2001
	(Dollar amounts in thousands, except share, per share and dividends per common share amounts)			
Statement of Operations Data:				
Sales	438,931	357,678	465,411	674,616
Cost of sales	(336,602)	(293,676)	(349,077)	(492,990)
Gross profit	102,329	64,002	116,334	181,626
Selling and distribution expenses	(30,782)	(22,378)	(34,138)	(62,213)
General and administrative expenses	(39,740)	(29,266)	(43,025)	(54,461)
Other operating expenses	(2,549)	(3,117)	(1,241)	(4,498)
Operating income	29,258	9,241	37,930	60,454
Financial income and expenses, net	(5,442)	(270)	(5,664)	(10,581)
Income before provision for income taxes and minority interest	23,816	8,971	32,266	49,873
Provision for income taxes[1]	(11,609)	(2,446)	(9,568)	(14,166)

Minority interest	(1,000)	(583)	(1,453)	(3,962)
Income from continuing operations	11,207	5,942	21,245	31,745
(Loss) income from discontinued operations(2)	(3,589)	(156)	138	103
Net income	7,618	5,786	21,383	31,848
Weighted average number of common shares outstanding	34,552,000	34,552,000	34,552,000	34,888,000
Earnings per share—basic and diluted:				
Income from continuing operations	0.32	0.17	0.62	0.91
(Loss) income from discontinued operations	(0.10)	(0.00)	0.00	0.00
Net income	0.22	0.17	0.62	0.91
Other Data from Continuing Operations:				
Adjusted EBITDA(3) (unaudited)	29,537	19,340	46,870	73,721
Adjusted EBITDA margin(4) (unaudited)	6.7%	5.4%	10.1%	10.9%
Capital expenditures	31,499	32,650	25,423	57,653
Cash flows from operating activities	Not available(5)	6,696	22,011	19,009
Cash used in investing activities	Not available(5)	42,454	35,644	68,040
Cash provided by financing activities	Not available(5)	31,897	24,213	50,749

	At December 31,			
	1998 (unaudited)	1999	2000	2001
Balance Sheet Data:				
Total assets of continuing operations	124,953	177,980	235,039	352,717
Total assets	148,719	208,688	314,131	352,717
Total net assets of continuing operations	38,223	40,933	45,358	85,011
Total net assets of discontinued operations	876	720	8,348	-
Total short-term and long-term debt of continuing operations, including current portion	11,739	29,534	67,763	122,022

Total liabilities from continuing operations.......	52,462	104,278	154,847	244,330

Notes:

(1) Provision for income taxes includes the tax benefit in our juice business relating to the small enterprise tax legislation. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Provision for Income Taxes."

(2) Discontinued operations consist of banking and brewery businesses, which were disposed of in April 2001. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results."

(3) Adjusted EBITDA, which represents income before interest, taxes, depreciation and amortization, adjusted for minority interest, should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. Further, adjusted EBITDA as presented above may not be comparable to similarly titled measures reported by other companies. We believe that adjusted EBITDA is a relevant measurement to assess performance which attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortization policies.

(4) "Adjusted EBITDA margin" represents adjusted EBITDA as a percentage of sales.

(5) Cash flow information is not available for 1998 as financial statements for this year were not reasonably obtainable at other than disproportionate expenses.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this document, before you decide to buy our ADSs. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of our ADSs could decline and you could lose all or part of your investment.

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently do not know or deem immaterial, may also result in deceased revenues, increased expenses or other events that could result in a decline in the price of our ADSs.

Risks Relating to Our Business and Industry

Economic downturns could hurt our turnover and materially adversely affect our strategy to increase our sales of premium brands.

Demand for dairy and juice products, as well as bottled water, depends primarily on demographic factors and consumer preferences as well as factors relating to discretionary consumer spending, including the general condition of the economy and general levels of consumer confidence. The willingness of consumers to purchase branded food and beverage products depends in part on local economic conditions. In periods of economic uncertainty, consumers tend to purchase more economy brands and, to the extent that our business strategy depends on the expansion of the sales of premium brands, our results of operations could suffer. Reduced consumption of our products in any of our key markets could reduce our turnover and profitability.

The failure of our geographic expansion strategy could hamper our continued growth and profitability.

Our expansion strategy depends on funding growth in additional markets with cash flow generated in our existing markets, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Should growth decline in our existing markets, not increase as anticipated in markets in which we have recently acquired or established businesses, or in markets into which we subsequently expand, our geographic expansion strategy may not be successful and our business and profitability may suffer. We describe our geographic expansion strategy under "Item 4. Information on Our Company—B. Business Overview—Business Strategy."

Our growth strategy relies significantly on acquisitions and establishing new businesses, and our future growth, results of operations, and market share would be adversely affected if we fail to identify suitable targets, outbid competing bidders or finance acquisitions on acceptable terms.

Our strategy depends on being a large manufacturer in the dairy and juice sectors so that we can benefit from economies of scale, better satisfy customer needs and compete effectively against other producers. Our growth will suffer if we are unable to implement our acquisition strategy, whether because we fail to identify suitable targets, outbid competing bidders or finance acquisitions on acceptable terms or for any other reason. Furthermore, any acquisitions or similar arrangements may harm our business if we are unsuccessful in the integration process or fail to achieve the synergies and savings we expect. We describe our acquisition strategy under "Item 4. Information on Our Company—B. Business Overview—Business Strategy."

We may not be able to integrate our recently acquired companies into our operations.

We have recently acquired a number of new companies. There can be no assurance that we will be able to integrate these businesses successfully into our existing operations. Our failure to integrate these companies successfully could have a material adverse effect on our results of operations.

Our inability to develop new brands, products and product categories could significantly inhibit our future growth and profitability.

Our business expansion strategy is based in part upon entering into new product categories, developing new products and marketing new brands in existing product lines. The success of this strategy depends, in part, on our ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences. Consumer preferences change and our failure to anticipate, identify or react to these changes could negatively affect our expansion strategy. This strategy is designed to increase our market share and revenues by increasing consumer demand in our existing markets and entering into new market segments. If we are unable to develop new brands, products and product categories successfully, our revenues and profitability will be significantly and adversely affected.

If we do not continue to be an efficient producer in a highly competitive environment, particularly in relation to purchases of our packaging and raw materials, our results of operations will suffer.

Our success depends in part on our continued ability to be an efficient producer in a highly competitive industry. If we cannot continue to control costs through productivity gains or by eliminating redundant costs resulting from acquisitions, our results of operations will suffer. In particular, price increases and shortages of packaging and raw materials could adversely affect our results of operations. For example, our results of operations may be affected by the availability and pricing of packaging materials, principally cardboard and plastic containers, and raw materials, principally raw milk and juice concentrate. We are substantially dependent upon a single supplier of packaging materials, which may make us more vulnerable to changes in global supply and demand and their effect on price and availability of these materials. Additionally, weather conditions and other factors beyond our control significantly influence the price and availability of our raw materials. Moreover, a number of our raw materials, such as juice concentrate and sugar, are international commodities and are subject to international price fluctuations.

While the prices of these materials have historically not been subject to significant volatility, a substantial increase in the prices of these materials, which we may not be able to pass on to customers through price increases, or a protracted interruption in supply, could have a material adverse effect on our financial condition and results of operations. See "Item 4. Information on Our Company—B. Business Overview—Production and raw materials—Food raw materials."

We may be unable to continue to add products that are in faster growing and more profitable categories.

The food industry's growth potential is constrained by population growth, which has been falling in Russia. Our success depends in part on our ability to expand our business faster than populations are growing in the markets that we serve, or notwithstanding declines in the populations in those markets. One way to achieve that growth is to enhance our portfolio by adding products that are in faster growing and more profitable categories. If we do not succeed in making these enhancements, our results of operations will suffer.

Our inability to address the seasonal difference between the demand for dairy products and the supply of raw milk could result in a significant increase in our production costs, reducing our turnover and profitability.

The demand for our dairy products is significantly higher during the winter months, when Russian raw milk production is at its lowest. Conversely, during the summer months we generally experience depressed demand for dairy products, while raw milk production is at its peak. If we are unable to mitigate this inverse relationship successfully, either through the purchase of raw milk during the winter at commercially competitive prices or through the use of dry milk, our production costs will increase significantly, reducing our profitability.

In the event that the Moscow city government were to reduce significantly the prices or the amount of products it purchases from our baby food business, then our revenues from this business could be substantially reduced.

In 2001, the Moscow city government purchased approximately 74.2% of the baby food products we produced in Moscow at a discount of 7% from the market price of these products, and the proceeds of the baby food products sold to the Moscow city government made up 65.2% of the total proceeds of the Moscow Baby Food Plant. We supply these products to the Moscow city government pursuant to a competitive tender held on a yearly basis. In the event that we were to lose a competitive tender, or the Moscow city government were to reduce significantly the prices or the amount of products it purchases from our baby food business, and we were unable to find alternative purchasers, then our revenues from this business could be substantially reduced. We discuss the sale and distribution of products produced at the Moscow Baby Food Plant in "Item 4. Information on Our Company—B. Business Overview—Distribution."

Our substantial reliance on independent retailers and wholesalers for the distribution of our products could lower our turnover and reduce our competitiveness.

We sell our products either directly to retailers, including supermarkets, grocery shops and restaurants, or to wholesalers for resale to retail outlets. We expect sales to independent retailers and wholesalers to continue to represent a significant portion of our revenues. Our operations and distribution costs could be affected by increasing consolidation of these entities, particularly as these customers become more sophisticated and attempt to force lower pricing and increased promotional programs. For example, in the spring of 2001, several Russian supermarket chains formed a loose alliance which publicly announced its intention not to purchase our products. Although these supermarket chains now purchase our products, there can be no assurance that they will continue to do so or that other supermarket chains will not attempt a similar consolidation of market power. This alliance also intends to seek price discounts from manufacturers. Additionally, a number of large Western retailers, such as the Turkish retailer Ramenka and the German retailer Metro, have already opened stores in the Moscow region, and we expect that these retailers will increase price competition.

We also compete with other brands for shelf space in retail stores and marketing focus by our independent wholesalers and retailers, and our independent wholesalers and retailers offer other products, sometimes including their own brands, that compete directly with our products. If independent wholesalers and retailers give higher priority to other brands, purchase less of, or even refuse to buy, our products, seek substantial discounts, or devote inadequate promotional support to our brands, it could materially and adversely affect our turnover, reduce our competitiveness, and our profitability.

We do not carry the types of insurance coverage customary for a business of our size and nature, and a significant occurrence could result in substantial property loss and inability to rebuild in a timely manner or at all, causing significant harm to our operations and profitability.

We do not carry full insurance for our facilities for risks commonly insured against in other countries. In the event that a major event were to affect one of our facilities, we could experience substantial property loss and significant disruptions in our production capacity. If substantial production capacity were lost at Lianozovo Dairy Plant, which is our primary production facility, we would not be able to replace a substantial portion of this capacity with capacity from our other plants, potentially resulting in the interruption of the production of a number of our products. Additionally, depending on the severity of the property damage, we may not be able to rebuild in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events.

We may not be able to protect our intellectual property rights adequately, resulting in material harm to our financial results and ability to develop our business.

Given the importance of brand recognition to our business, we have invested considerable effort in protecting our portfolio of intellectual property rights, including trademark registration. However, we cannot be certain that the steps we have taken will be sufficient or that third parties will not infringe or misappropriate our proprietary rights. Moreover, Russia and the other countries of the CIS in which we operate generally offer less intellectual property protection than Europe or North America. If we are unable to protect our proprietary rights against infringement or misappropriation, it could materially harm our future financial results and our ability to develop our business. We describe our patents and trademarks under “Item 4. Information on Our Company—B. Business Overview—Trademarks and Patents.”

Failure of several of our brand names and images, for which trademarks are currently being sought, to be awarded trademark protection could materially affect our marketing plans, resulting in increased advertising expenses and adversely affecting our financial results.

As of April 2, 2002, we had 126 pending trademark applications in Russia and 32 pending trademark applications abroad. The trademark application for one of our products, Chudo-Yagoda, was rejected in Armenia, which we intend to contest. If our pending applications are not granted trademark status, we will have limited ability to defend these brand names or images from use by others, significantly reducing the value of any advertising using these brand names or images. This will negatively affect our marketing plans for the products that utilize these brand names or images, and may require us to develop a different marketing approach for these products, resulting in increased advertising expenses and adversely affecting our financial results.

Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties which would adversely affect our financial results and could reduce our ability to maintain or increase production.

Our operations and properties are subject to regulation by various government entities and agencies. As a producer of food products, our operations are subject to production, packaging, quality, labeling and distribution standards. The operations of our production and distribution facilities are also subject to various environmental laws and workplace regulations. We believe that our current legal and environmental compliance programs adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, compliance with, or any violation of, current and future laws or regulations could require material expenditures by us or otherwise adversely effect our business or financial results. See “Item 4. Information on Our Company—B. Business Overview—Regulation.”

Additionally, under relevant Russian legislation, Russian regulatory agencies can impose various sanctions for violations of environmental standards. These sanctions include civil and criminal penalties, and can extend to an order halting part or all of the production at a plant which has violated environmental standards. We have been, at various times, subject to administrative sanctions for the failure to comply with environmental regulations relating to effluent discharge. In the event that production at one of our facilities was partially or wholly prevented due to this type of sanction, our production capability would suffer significantly and our operating results would suffer.

If we are unable to obtain adequate capital, we may have to limit our operations substantially, with a resulting negative impact on our operating results and loss of market share.

We plan to make significant capital expenditures, particularly in connection with our acquisition of new companies, expansion of existing operations, and upgrades of existing facilities. For the fulfillment of our capital spending plans, we spent approximately $25.4 million in 2000; $57.7 million in 2001; and have budgeted $77.8 million for 2002. However, future financing may not be sufficient to meet our planned needs in the event of the following potential developments:

- changes in the terms of existing financing arrangements;
- pursuit of new business opportunities that require significant investment; or
- significant deterioration in the Russian economy.

To meet our financing requirements, we may need to attract additional equity or debt financing. Debt financing in Russia, particularly long-term debt financing, on commercially acceptable terms may be difficult to obtain, and equity financing could result in substantial dilution of your investment. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could negatively affect our market share and operating results.

Rapid growth and expansion may cause us difficulty in obtaining adequate managerial and operational resources, restricting our ability to expand our operations successfully.

We have experienced rapid growth and development in a relatively short period of time. Management of such growth has required significant managerial and operational resources and is likely to continue to do so. Our future operating results depend in significant part upon the continued contributions of a small number of our key senior management and technical personnel. Management of growth will require, among other things:

- continued development of financial and management systems;
- increased marketing activities; and
- hiring and training of new personnel.

Our success will depend, in part, on our ability to continue to attract, retain and motivate qualified personnel. The competition in Russia for personnel with relevant expertise is intense, due to the small number of qualified individuals. The failure to manage our growth and development successfully would materially adversely affect us.

We are controlled by a group of shareholders whose interests could conflict with those of the holders of ADSs.

Following our initial public offering, between 73.07% and 70.38% of our outstanding common stock is now owned by the group of shareholders that owned us prior to the offering. This group has acted in concert since our establishment and, since 1997, pursuant to a Partnership and Cooperation Agreement, amended and restated January 16, 2002, which requires the parties to vote the same way. See "Item 10. Additional Information—C. Material Contracts" for more information regarding this agreement, including a listing of our shareholders who are a party to it. This group continues and will continue to be bound by this agreement to vote as a block for at least two years after completion of our initial public offering. This agreement gives them control over us and the ability to elect a majority of the directors, appoint management and approve certain actions requiring the approval of a majority of our shareholders. The interests of these shareholders could conflict with those of holders of ADSs and materially adversely affect your investment.

In the event that our equipment rental arrangements were deemed to be subject to licensing requirements, our subsidiaries engaging in these arrangements could be subject to liquidation or face the invalidation of the rental contracts.

A number of our subsidiaries purchase equipment which they then, in turn, lease to raw material producers. In addition, many of our dairy plants, including Lianozovo Dairy Plant, lease equipment to our juice producers for the production of juice products. Prior to February 11, 2002, when the new Federal Law on Licensing of Certain Types of Activities became effective, Russian legislation required a license for financial leasing activities, but it is unclear whether this requirement extended to our leasing activities. Although leasing activities are no longer subject to licensing, in the event that the relevant governmental authorities were successfully to claim that a license was required for our past leasing activities, we would be subject to significant negative consequences such as the potential liquidation of the leasing entity and invalidation of the relevant contracts.

In the event that the Central Bank revokes our license to own a foreign subsidiary, our export-import operations would be significantly and negatively affected.

We received a license from the Central Bank of the Russian Federation permitting us to establish a subsidiary in the Netherlands. This subsidiary, WBD Netherlands B.V., in turn has established or acquired shares in a number of other foreign entities, including WBD Israel and WIMM-BILL-DANN Germany GmbH. The terms of our license do not specifically allow WBD Netherlands B.V. to own shares in other foreign subsidiaries. If the Central Bank were to determine that the ownership of shares in these foreign entities by WBD Netherlands B.V. is in violation of our license, then the Central Bank could revoke the license, resulting in our forced divestiture of WBD Netherlands B.V. and its subsidiaries, including those in Israel. This would significantly and adversely affect our ability to export our products and to import materials such juice concentrate and packaging.

If any of our subsidiaries is forced into liquidation due to negative net equity, our results of operation could suffer.

In accordance with Russian legislation, in the event that a company's net assets fall below the minimum charter capital required by law, its creditors may accelerate their claims or demand early performance of obligations and demand payment of damages. In these circumstances, governmental authorities may seek the involuntary liquidation of the company.

Two of our subsidiaries, Trade Company Wimm-Bill-Dann and Wimm-Bill-Dann Priobretatel, have net assets below the minimum charter capital required by law. We have not taken any steps to remedy this situation because we believe that, as long as these subsidiaries continue to fulfill their obligations, the risk of their liquidation is minimal. While we understand that a Moscow court recently liquidated a company pursuant to this legislation, we are not aware of any situation where a Russian company has been liquidated pursuant to this legislation if it has met all of its obligations, as each of these two subsidiaries has. Therefore, we believe that this risk is remote and have not included it as a contingency in the notes to our financial statements which appear elsewhere in this document. However, if involuntary liquidation were to occur, we would be forced to reorganize the operations we currently conduct through these two subsidiaries. In addition, Trade Company Wimm-Bill-Dann holds shares in a number of our other subsidiaries, including Bishkek Dairy Plant and other of our foreign subsidiaries. See "—In the event that the Central Bank revokes our license to own a foreign subsidiary, our export-import operations would be significantly and negatively affected." Accordingly, any such liquidation would materially adversely affect us.

In the event that deficiencies or ambiguities in privatization legislation are successfully exploited to attack our ownership in a privatized company and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially affect our production capability, market share and results of operation.

Our business includes a number of privatized companies in Russia and other countries of the former Soviet Union, and our acquisition strategy will likely involve additional privatized companies. To the extent that privatization legislation has been vague, full of inconsistencies and in conflict with other legislation, including conflicts between federal and local privatization legislation, most, if not all, privatizations are arguably deficient and therefore are vulnerable to attack. For instance, a series of presidential decrees issued in 1991 and 1992 which granted to the government of Moscow the right to adopt its own privatization procedures were subsequently held invalid by the Constitutional Court of the Russian Federation in 1993, which ruled, in part, that the presidential decrees addressed issues which were the subject of federal law. While this court ruling, in theory, does not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000. In the event that any of our privatized companies are subject to attack as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially affect our production capability, market share and results of operations. Most importantly, as the ownership of the majority of our other subsidiaries is through Lianozovo Dairy Plant, and as Lianozovo Dairy Plant constitutes the majority of our production capacity, its loss would substantially and negatively affect us.

Additionally, of the 97% of Lianozovo Dairy Plant and 90% of Tsaritsino Dairy Plant which we own, 15% of each were acquired in separate investment tenders held by the Department of State and Municipal Property of the Moscow Government. Under the legislation governing such tenders, a tender is not valid unless at least two participants submit bids. In the investment tenders for Lianozovo Dairy Plant and Tsaritsino Dairy Plant, the only two participants were entities which were under common control, an arguable violation of this requirement. In the event that the Russian government authorities were to successfully maintain that these tenders were not duly held since the participants were under common control, we could lose 15% of our stakes in Lianozovo Dairy Plant and Tsaritsino Dairy Plant, substantially and negatively affecting our results of operation.

In the event that companies which, as a result of our corporate reorganization for our initial public offering, were transferred by us but continue to be associated in the public mind with the Wimm-Bill-Dann name give rise to shareholder liability or reputational issues, our results of operation or reputation could suffer.

As part of our corporate reorganization for our initial public offering, we transferred our interests in a bank, Expobank, and four breweries to certain of our shareholders. These shareholders, in turn, have disposed of their interests in the bank, but retain their interests in the breweries. In the event that these companies, which are no longer owned by us but continue to be associated with the "Wimm-Bill-Dann" name in the public mind, are subject to negative publicity, this could affect our reputation. For example, there have been press reports about a dispute regarding the exclusion in the fall of 2000 of minority shareholders from a shareholders' meeting of a beer company previously owned by us and now owned by our current shareholders, some of whom are also members of our Board of Directors. These press reports repeated allegations made by the excluded minority shareholders as to the illegality of their exclusion, although their exclusion was upheld in court. Press speculation of a similar nature could raise concerns about how you and other minority shareholders in our company are treated, negatively affecting the price of our ADSs. Additionally, we could be held responsible for any shareholder liability which arises in connection with these companies and their operations during the time which they were owned by our subsidiaries.

An existing shareholder of ours owns a blocking stake in one of our subsidiaries, the Moscow Baby Food Plant, which could be used to prevent us from realizing our expansion plans for this plant or otherwise hinder its operations.

An existing shareholder of ours, Alexander Orlov, owns a blocking stake of 25.1% in the Moscow Baby Food Plant, which gives him negative control over this subsidiary in certain circumstances. In particular, the following actions require the approval by at least 75% of the issued and outstanding voting shares present at a shareholders' meeting, and may therefore be blocked by a shareholder owning a stake of more than 25%:

- Charter amendments;
- Reorganization of the company;
- Liquidation of the company, appointment of a liquidation commission, and approval of the interim and final liquidation balance sheets;
- Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company, if not unanimously approved by the board of directors, also require a three-quarters affirmative vote of a shareholders meeting;

- Determination of the maximum amount, nominal value, and type of authorized shares and the rights granted by such shares;

- Redemption by the company of issued shares; and

- Any issuance of shares or securities convertible into shares by closed subscription, or issuance by open subscription of shares of common stock or securities convertible into common stock, constituting 25% or more of the number of issued common shares.

For example, this shareholder's ability to block charter amendments would allow him to prevent the authorization of additional shares, making additional capital infusions difficult or impossible. If this existing shareholder were to oppose decisions critical for the operation of this subsidiary's business, it would prevent us from realizing our expansion plans for this plant and would hinder its operations. For information regarding our potential purchase of Mr. Orlov's stake in Moscow Baby Food Plant, see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Potential Purchase of Stake in Baby Food Plant."

Possible implementation of new federal or local government policies, or select application of existing policies, affecting the food industry could substantially and negatively affect our turnover and operating margin.

Possible implementation of new federal or local government policies, or select application of existing policies, affecting the food industry could have significant impact on our business. For example, the federal and local governments have been known to implement trade barriers, subsidies and other policies favoring certain producers. Additionally, the imposition of higher customs duties on products we import would increase the costs of our products and reduce our turnover, while the implementation of price controls on products we produce would reduce our operating margin. For example, federal customs regulations enacted during 2001 subject juice concentrate imports to the highest level of customs duties allowed for that particular category of imports.

Another example of a government regulation that may affect us is Government Regulation No. 988, which, as of January 1, 2003, will require food producers intending to develop and offer a new food product to the public to file an application for the product's state registration and incorporation into the State Register of Permitted Food Products. The implementation of this regulation may cause significant delays in the introduction of our new products and result in increased production costs.

Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would adversely affect our market share and results of operation.

A number of our foreign competitors, such as Danone, Parmalat, Campina, Ehrmann, Onken, and Pascuale have begun to invest in domestic production facilities, beginning to reduce the competitive advantages that we have over foreign competitors without domestic production capability. If this trend continues, we will lose a significant advantage that we currently have over our foreign competitors, which would adversely affect our market share and results of operation.

Allegations about certain of our shareholders or directors could adversely affect our reputation.

Certain of our shareholders and directors, including the Chairman of our Board of Directors, are shareholders in, and directors of, a group of related companies sometimes referred to as "Trinity." The Trinity group engages in automobile distribution, financial services, security services, casinos, construction, advertising and engineering. We purchased Municipal Guard Agency, a security services company, from the Trinity group in 2001. Prior to 2002, we obtained security services from Trinity-Negus, and we currently have provided a loan to Adonis LLC, purchase milk from Poultry Factory Gorki-2 and receive transportation services from Avto-40, all companies in the Trinity group. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" for a description of these transactions. The Trinity group has been the subject of speculation in the Russian press, including with respect to possible links with organized crime. However, no charges have been brought by governmental authorities against any of our shareholders or directors and, to the best of our knowledge, none has been threatened. In addition, our largest shareholder, who is not a member of our Board of Directors, was convicted of a violent crime in 1980 under the Soviet system and served nine years in a labor camp. Press speculation about these or other matters relating to our shareholders or directors could adversely affect our reputation and the price of our ADSs.

If the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity were to conclude that we acquired or created a new company in contravention of antimonopoly legislation, it could impose administrative sanctions and require the divestiture of this company or other assets, adversely affecting our acquisition strategy and our results of operation.

Our business has grown substantially through the acquisition and founding of companies, many of which required the prior approval or subsequent notification of the Russian Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity or its predecessor agencies. In part, relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without this approval or notification. While we believe that we have complied with the applicable legislation for our acquisitions or new companies, this legislation is sometimes vague and subject to varying interpretations. Additionally, although the common ownership by our shareholders of a number of companies which are now our subsidiaries was generally made known to the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity and its predecessors, the existence of the shareholders' agreement among our current shareholders was not disclosed. If the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity were to conclude that an acquisition or creation of a new company was done in contravention of applicable legislation, it could impose administrative sanctions and require the divestiture of this company or other assets, adversely affecting our acquisition strategy and our results of operations.

Further restrictions on our business which is categorized as a monopoly, or the extension of monopoly status to other of our businesses, could result in the regulation of our prices and restriction of our commercial activities, significantly affecting our results of operations.

Under Russian legislation, the Russian Ministry for Antimonopoly Policy and Support of Entrepreneurial Activity may categorize a company as a dominant force in a market.

Current Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. Our baby food business is categorized as a monopoly in Moscow and the Moscow region, placing restrictions on our ability to increase our profit margins for that business. Any ruling that any of our other businesses was a monopoly could result in the regulation of our prices and restrictions on our commercial activities. The imposition of government-determined prices could, in turn, result in competitive disadvantages and a significant decline in revenues. Additionally, restrictions on expansion or government-mandated withdrawal from regions or markets would negatively affect our plans for expansion and could reduce our market share.

In the event that minority shareholders were to contest successfully existing, or were to prevent future, approval of transactions among our subsidiaries which require special approval in accordance with Russian legislation, this could limit our operational flexibility and adversely affect our results of operations.

We own less than 100% of a number of our subsidiaries, including our most important subsidiary, Lianozovo Dairy Plant. Under Russian law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the companies involved. "Interested party transactions" include transactions in which a member of the board of directors, an officer of a company or any person that owns, together with any affiliates of that person, at least 20% of a company' voting shares if that person, or that person's relatives or affiliates, is

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- a member of the board of directors or an officer of a company which is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- able to direct the actions of the company.

See "Item 10. Additional Information—B. Charter and Certain Requirements of Russian Legislation—Interested Party Transactions" for more details on the transactions that require this approval under Russian law. Our subsidiaries engage in numerous transactions which require interested party transaction approvals in accordance with Russian law. These transactions have not always been properly approved, and therefore may be contested by minority shareholders. In the event that minority shareholders were to contest successfully existing interested party transactions among our subsidiaries, or prevent the approval of these transactions in the future, this could limit our operational flexibility and adversely affect our results of operations.

Risks Relating to Our Financial Condition

Inflation could increase our costs and decrease our operating margins.

The Russian economy has been characterized by high rates of inflation, including a rate of 84.4% in 1998, although it subsided to 18.6% during 2001. Certain of our costs, such as salaries, are sensitive to rises in the general price level in Russia. In this situation, due to competitive pressures, we may not be able to raise the prices for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase our costs and decrease our operating margins.

Changes in exchange rates could increase our costs, decrease the value of our ruble-denominated monetary assets, prevent us from repaying our debts, or increase competition from foreign producers.

Over the past several years, the ruble has fluctuated dramatically against the U.S. dollar, in the great majority of instances falling in value. The Russian Central Bank has imposed various currency-trading restrictions in attempts to support the ruble. The ability of the Russian government and the Russian Central Bank to maintain a stable ruble will depend on many political and economic factors. These include their ability to finance budget deficits without recourse to monetary emissions, to control inflation and to maintain sufficient foreign currency reserves to support the ruble.

A significant portion of our costs and expenditures, as well as our liabilities, are either denominated in or tightly linked to the U.S. dollar. These include capital expenditures and borrowings, as well as the costs of packaging, juice concentrate and certain other raw materials. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in ruble terms. If we cannot increase our prices in line with ruble devaluation due to competitive pressures, this will lead to a loss of revenue in U.S. dollar terms. Additionally, if the ruble declines and prices cannot keep pace, we could have difficulty covering our dollar-denominated costs or repaying our U.S. dollar-denominated indebtedness.

The devaluation of the ruble also results in losses in the value of ruble-denominated monetary assets, such as ruble deposits and accounts receivable. Any further devaluation of the ruble against the U.S. dollar could materially adversely affect us.

The decline in the value of the ruble against the U.S. dollar also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment since their basis for tax purposes is denominated in rubles at the time of the investment or acquisition. Increased tax liability would increase our total expenses.

On the other hand, a strengthening of the ruble results in a relative decrease in the price of imported products, as does a strengthening of the ruble in real terms (even if it declines in nominal terms). The strengthening of the ruble in nominal or real terms enhances our ability to import raw materials, to cover our U.S. dollar-denominated or U.S. dollar-linked costs and to repay our U.S. dollar-denominated indebtedness, but also increases the ability of foreign producers who export products to Russia to compete effectively with us in the Russian market.

Currency control regulations hinder our ability to obtain hard-currency-denominated financings on favorable terms, thus increasing our borrowing costs.

Certain payments in foreign currency, including the following, are subject to prior permission by the Russian Central Bank:

- direct investments, except in the charter capital of a company;
- portfolio investments;
- receiving or paying a loan through the issuance, placement or redemption of securities;
- payments for export-import transactions with settlement over 90 days following completion; and
- payments with respect to real estate.

If we are unable to obtain Russian Central Bank licenses for hard-currency-denominated borrowing, our long-term borrowing sources will be limited to Russian financial institutions, which may hinder or prevent us from obtaining financing on favorable terms.

Restrictions on investments outside of Russia or in hard-currency-denominated instruments in Russia expose our cash holdings to devaluation.

Currency regulations established by the Russian Central Bank restrict investments by Russian companies outside of Russia and in most hard-currency-denominated instruments in Russia, and there are only a limited number of ruble-denominated instruments in which we may invest our excess cash. Any balances maintained in rubles will give rise to losses if the ruble devalues against the U.S. dollar. Moreover, the obligors of our ruble-denominated investments may default, resulting in substantial losses for us.

Continued or increased limitations on the conversion of rubles to hard currency in Russia could increase our costs when making payments in hard currency to suppliers and creditors and could cause us to default on our obligations to them.

Our major capital expenditures are generally denominated and payable in various foreign currencies, including U.S. dollars. To the extent such major capital expenditures involve the importation of equipment and related items, Russian legislation permits the conversion of ruble revenues into foreign currency. However, the market in Russia for the conversion of rubles into foreign currencies is limited. The scarcity of foreign currencies may tend to inflate their values relative to the ruble, and such a market may not continue to exist.

Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay or restriction in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults.

If the various initiatives we have used to reduce our tax burden are successfully challenged by the Russian tax authorities, we will face significant losses associated with the assessed amount of tax underpaid and related interest and penalties, which would have a material impact on our financial condition and results of operations.

We have used, and continue to use, various initiatives to reduce our tax burden. There have been press reports of instances in which the Russian tax authorities have successfully challenged structures similar to those we use. If our initiatives are successfully challenged by the Russian tax authorities, we would face significant losses associated with the assessed amount of tax underpaid and related interest and penalties. These losses could have a material impact on our financial condition and results of operations. See Note 32 to our consolidated and combined financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001.

The elimination of a tax privilege from which we currently benefit would materially adversely affect our results of operations.

In 1999, 2000, and during the nine months ended September 30, 2001, our juice-products subsidiaries benefited from small enterprise tax legislation. If we had not taken advantage of this benefit in 1999, 2000, and 2001, our tax expenses would have increased by $4.3 million, $6.0 million and $8.6 million, respectively. This tax benefit was eliminated as of January 1, 2002. However, even under the amended legislation, our small enterprises that were formed prior to January 1, 2002, will be able to continue to use this benefit for five years from the date on which they were formed. This change in legislation could materially adversely affect our results of operations in the future. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Provision for Income Taxes."

Risks related to our ADSs and the Trading Market

Because the depositary may be considered the beneficial holder of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Because Russian law may not recognize ADS holders as beneficial owners of the underlying shares, it is possible that you could lose all your rights to those shares if the depositary's assets in Russia are seized or arrested. In that case, you would lose all the money you have invested.

Russian law might treat the depositary as the beneficial owner of the shares underlying the ADSs. This would be different from the way other jurisdictions, such as the states of the United States, treat ADSs. In those jurisdictions, although shares may be held in the depositary's name or to its order and it is therefore a "legal" owner of the shares, the ADS holders are the "beneficial," or real owners. In those jurisdictions, no action against the depositary, the legal owner, would ever result in the beneficial owners losing their shares. Because Russian law may not make the same distinction between legal and beneficial ownership, it may only recognize the rights of the depositary in whose name the shares are held, not the rights of ADS holders, to the underlying shares.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. We do not know yet whether the shares underlying ADSs may be seized or arrested in Russian legal proceedings against a depositary. In the past, a lawsuit has been filed against a depositary bank other than Bankers Trust Company seeking the seizure of various Russian companies' shares represented by ADSs. In the event that this type of suit were successful in the future against a depositary bank, and if the shares are seized or arrested, the ADS holders involved would lose their rights to the underlying shares.

Because the rights of nominee holders and depositaries are not well developed, you will be unable to direct the voting of the shares represented by our ADSs and may not be able to obtain some of the benefits due to you as a holder of our ADSs.

The Federal Law on the Securities Markets provides that shares may be held by nominees entitled to vote the shares on behalf of the beneficial owner upon receipt of the appropriate instructions from the beneficial owner. The nominee is required to provide information on the beneficial holder of the shares upon the demand of the registrar. The custodian under the deposit agreement, OOO Deutsche Bank, is registered as the nominee owner for Bankers Trust Company, as depositary; under Russian law, however, Bankers Trust Company in turn might be viewed as the owner of the shares underlying the ADSs. Since Russian law prohibits a shareholder from voting in more than one way on any agenda item, the depositary may not be in a position to vote the shares it holds on behalf of ADR holders other than as a block. Further, in the past, nominees have reportedly experienced difficulty in convincing registrars of their right to represent the beneficial holder and in convincing tax authorities of the right of beneficial holders to obtain the benefits available under an applicable tax treaty. This could result in your being unable to obtain some of the benefits due to you as a holder of our ADSs, including the ability to exercise your voting rights.

Even if Russian legislation is amended to allow for voting of our ADSs, your voting rights with respect to the shares represented by our ADSs are limited by the terms of the deposit agreement for our ADSs.

Even if Russian legislation is amended to allow for voting of our ADSs, you will be able to exercise voting rights with respect to the common shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. However, there are practical limitations upon your ability to exercise your voting rights due to the additional procedural steps involved in communicating with you. For example, the Federal Law on Joint Stock Companies requires us to notify shareholders at least 20 days in advance of any meeting. Our common shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

As an ADS holder, you, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary. The depositary has undertaken in turn, as soon as practicable thereafter, to mail to you the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by holders. To exercise your voting rights, you must then instruct the depositary how to vote its shares. Because of this extra procedural step involving the depositary, the process for exercising voting rights may take longer for you than for holders of common shares. ADSs for which the depositary does not receive timely voting instructions will not be voted at any meeting. Except as described in this document, you will not be able to exercise voting rights with respect to the shares of common stock that underlie the ADSs.

Because there was no prior public trading market for our common stock or ADSs prior to our initial public offering, our initial public offering may not result in an active or liquid market for our ADSs, and their price may be highly volatile.

Before our initial public offering, there was no public trading market for our common stock or ADSs. Although our ADSs have been admitted for listing on the New York Stock Exchange, an active public market may not develop or be sustained after the offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for our ADSs does not develop, the price of our ADSs may be more volatile and it may be more difficult to complete a buy or sell order for our ADSs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depositary at any time, there is no public market for our shares. The market price of our ADSs may decline below the offering price. In addition, the trading prices of the ADSs may be subject to wide fluctuations in response to many factors, including:

- variations in our operating results and other food and beverage companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation; or
- general economic conditions within our business sector or in Russia.

In addition, the Russian stock market has experienced extreme price and volume fluctuations. These market fluctuations could adversely affect the value of our ADSs.

You may be unable to repatriate your earnings from our ADSs.

Russian currency control legislation pertaining to payment of dividends currently provides that ruble dividends on common stock may be paid to the depositary or its nominee and converted into U.S. dollars by the depositary for distribution to owners of ADSs without restriction. Also, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws as long as the buyer is not a Russian resident.

Under the terms of the deposit agreement, there is no restriction on the sale of our ADSs to Russian residents. Russian currency control legislation, however, effectively limits the ability of a non-resident of Russia to sell our ADSs to a Russian resident. Without a Central Bank license, which in practice is difficult to obtain, Russian residents must purchase securities for rubles and may not purchase foreign-currency denominated securities, such as our ADSs. Accordingly, an ADS holder seeking to sell its holding to a Russian resident would need first to convert its ADSs into shares and establish a special ruble investment account, while the repatriation of proceeds from the sale of securities in Russia may be subject to costs and delays.

The ability of the depositary and other persons to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble-currency and ruble-denominated investments.

Future sales of common stock or ADSs may affect the market price of our common stock and ADSs.

Sales, or the possibility of sales, of substantial numbers of shares of our common stock or ADSs in the public market following our initial public offering could have an adverse effect on the market trading prices of the ADSs. We now have 44,000,000 authorized shares of common stock, all of which are outstanding. Our subsequent equity offerings may reduce the percentage ownership of our shareholders. Newly issued stock may have rights, preferences or privileges senior to those of common stock.

You may have limited recourse against us and our officers and directors because we generally conduct our operations outside the United States and substantially all of our officers and directors reside outside the United States.

Our presence outside the United States may limit your legal recourse against us. We do not have any presence in the United States and are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States, principally in Russia. All or a substantial portion of our assets and the assets of our officers and directors are located outside the United States.

As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the federal securities laws of the United States. There is no treaty between the United States and Russia providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the ADSs.

The deposit agreement provides for disputes, controversies and causes of action brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association; provided that any controversy, claim or cause of action relating to or based upon the provisions of the federal securities laws of the United States or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors, Russian courts' inability to enforce such orders (for example, upon a finding that the enforcement of an arbitration award violates public policy or a supervening law of the Russian Federation), and corruption.

Financial turmoil in emerging markets could cause the price of our ADSs to suffer.

In recent years, financial turmoil in Russia and other emerging markets in 1997 and 1998 adversely affected market prices in the world's securities markets for companies which operate in those developing economies. Continued or increased financial downturns in these countries could cause further decreases in prices for securities of our company, even if the Russian economy remains relatively stable.

Risks Relating to the Russian Federation

Political Risks

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a pluralist democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by particular social and ethnic groups. Significant political instability could have a material adverse effect on the value of foreign investments in Russia, including the value of our ADSs.

Governmental instability could adversely affect the value of investments in Russia and the value of our ADSs.

The composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been highly unstable. Six different prime ministers, for example, headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned and Vladimir Putin was subsequently elected president on March 26, 2000. While President Putin has maintained governmental stability and the general direction of reform, he may adopt a different approach over time. The value of investments in Russia and our ADSs could be reduced and our prospects could be harmed if governmental instability recurs or if reform policies are reversed.

Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could adversely affect the value of investments in Russia and the value of our ADSs.

The Russian Federation consists of 89 sub-federal political units, some of which exercise considerable power over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional governmental authorities remains uncertain and contested. This uncertainty could hinder the operation and the expansion of our businesses.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to communal tensions and military conflict. From 1994 to 1996 and since 1999, Russian military forces have been engaged in major ground and air operations in Chechnya, bringing normal economic activity within Chechnya to a halt and disrupting the economy of the neighboring region. The spread of violence, or political measures taken to counter violence, such as the imposition of a state of emergency, could hinder the operation and the expansion of our businesses.

Economic Risks

Economic instability in Russia could adversely affect consumer demand, particularly for premium products, materially adversely affecting our expansion plans.

Since the dissolution of the Soviet Union, the Russian economy has experienced:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, as evidenced by the revocation of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies, and resulted in the losses of bank deposits in some cases.

There can be no assurance that recent trends in the Russian economy—such as the increase in the gross domestic product, a relatively stable ruble, and a reduced rate of inflation—will continue or will not be abruptly reversed. Moreover, the recent fluctuations in international oil and gas prices, the strengthening of the ruble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia's economy and our business in the future, particularly our expansion plans.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks; power generation and transmission; communication systems; and building stock. During the past winter, electricity and heating shortages in Russia's far-eastern Primorye region seriously disrupted the local economy. In August 2000, a fire at the main communications tower in Moscow interrupted television and radio broadcasting and the operation of mobile phones for weeks. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements. The federal government is actively considering plans to reorganize the nation's rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations, and this could have a material adverse effect on our business and the value of our ADSs.

Failure by the Russian government to maintain access to funding from the International Monetary Fund or to restore access to the international capital markets could have a material adverse effect on the value of our ADSs.

Russia in the past has received substantial funding from several foreign governments and international organizations, including the International Monetary Fund or the IMF. After the events of August 17, 1998, the IMF ceased lending to Russia. Furthermore, in January 2001, the Russian government did not make when due certain payments of rescheduled Soviet debt to the Paris Club of official creditors, although subsequently Russia resumed making payments to the Paris Club in full. If no further IMF financing is made available or if no agreement is reached with the Paris Club, the Russian government may not receive further financial support from other international organizations and foreign governments and may not be able to repay its debts. Moreover, the Russian government has not raised financing on the international capital markets since July 1998, and it may not be able to do so in the foreseeable future. The amount of foreign debt due for repayment increases substantially in 2003, further increasing the risk of default by the Russian government.

The failure of the Russian government to obtain IMF or other international funding, or to gain access to the international capital markets, could lead to direct or indirect monetary financing of any future budget deficit, putting further pressure on inflation and the value of the ruble, which in turn could materially and adversely affect our business and the value of foreign investments in Russia, including our ADSs.

Fluctuations in the global economy may adversely affect Russia's economy, limiting our access to capital and adversely affecting the purchasing power of our customers and thus our business.

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy. These developments could severely limit our access to capital and could adversely affect the purchasing power of our customers and thus our business.

Social Risks

Crime and corruption could disrupt our ability to conduct our business and could materially adversely affect our financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Reportedly, organized criminal activity has increased significantly, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the Russian and international press have reported high levels of official corruption in Russia and other countries of the CIS, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further commercial interests of the government and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Our operations could be adversely affected by illegal activities, corruption or by claims implicating us in illegal activities, which could materially adversely affect the value of our ADSs.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our ability to conduct our business effectively.

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads. Such labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, with restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could restrict our operations and lead to the loss of revenue, materially adversely affecting us.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity and thus could have a material adverse effect on an investment in our ADSs.

Russia is still developing the legal framework required by a market economy. Among the risks of the current Russian legal system are:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the 1995 Civil Code and by other federal laws, and by decrees, orders and regulations issued by the president, the government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. In addition, certain important bills remain to be adopted in Russia;

- there is a lack of judicial and administrative guidance on interpreting Russian legislation;

- the relative inexperience of judges and courts in interpreting Russian legislation;

- a high degree of discretion on the part of governmental authorities; and

- bankruptcy procedures are not well developed and are subject to abuse.

Additionally, several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights to intellectual property or under contracts, or to defend ourselves against claims by others.

Lack of independence and inexperience of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us or you from obtaining effective redress in a court proceeding, materially adversely affecting an investment in our ADSs.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow. Enforcement of court orders can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalization. Some government entities have tried to renationalize privatized businesses. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on us.

Unlawful or arbitrary government action may have an adverse affect on our business and the value of an investment in our ADSs.

Government authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary governmental actions have included withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often for political purposes. Unlawful or arbitrary government action, if directed at us, could have a material adverse effect on our business and on the value of our ADSs.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another. The person capable of determining such decisions is called an effective parent. The person whose decisions are capable of being so determined is called an effective subsidiary. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies, and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action(s) or fail to take action(s) knowing that such action(s) or failure to take action(s) would result in losses. Accordingly, in our position as effective parent of the subsidiaries in which we own, directly or indirectly, more than 50% of the charter capital, we could be liable, in the cases described above, for their debts. The total amount of debt to our subsidiaries, as of December 31, 2001, was $122.0 million, excluding intercompany loans. In addition, our subsidiaries have other liabilities. This total liability, which is joint and several with the liability of the subsidiary, could materially adversely affect us.

A shareholder of an effective parent should not itself be liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business.

Because there is little minority shareholder protection in Russia, your ability to bring or recover in an action against us will be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate action, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against certain types of action. We are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Item 10. Additional Information—B. Charter and Certain Requirements of Russian Legislation—Rights Attaching to Shares" for a more detailed description of some of these protections. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer-pricing practices. Shareholder meetings have been irregularly conducted, and shareholder resolutions have not always been respected by management.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company, which could be prejudicial to the interests of minority shareholders. It is possible that our majority shareholders and our management in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could materially and adversely affect the value of your investment in our ADSs. For example, on January 10, 2002, Lianozovo Dairy Plant issued a suretyship to OAO Alfa-Bank in connection with the sale of our shares by certain of our shareholders to Templeton Strategic Emerging Markets Fund LDC without the prior approval of this action by disinterested shareholders of Lianozovo Dairy Plant, as required under Russian law. This transactions was subsequently approved by a meeting of shareholders held on January 14, 2002. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We are controlled by a group of shareholders whose interests could conflict with those of the holders of the ADSs" for more discussion of the potential control certain of our shareholders may have.

Disclosure and reporting requirements, and anti-fraud legislation, have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies or shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us and our subsidiaries or to our shareholders could materially adversely affect the value of your investment in our ADSs.

While the Federal Law on Joint Stock Companies provides that shareholders owning not less than one percent of the company's stock may bring an action for damages on behalf of the company, Russian courts do not to date have experience with respect to such suits. Russian law does not contemplate class action litigation. Accordingly, your practical ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of ADSs.

Uncoordinated regulation of Russian capital markets regulation could lead to insufficient protection of your rights as an investor in our ADSs.

The Russian securities market is in the early stages of development and is regulated by several different authorities which are often in competition with each other. These include:

- the Federal Commission on Securities Markets;
- the Ministry of Finance;
- the Ministry for the Anti-Monopoly Policy;
- the Central Bank; and
- the Ministry of Property Relations.

The regulations of these various authorities are not always coordinated and may be contradictory. This could reduce the protection available to you as a holder of our ADSs, and reduce the value of your investment in our ADSs.

The lack of a central and rigorously regulated share registration system in Russia may result in your having difficulties in selling our ADSs.

Ownership of shares in Russian joint stock companies is determined by entries in a share register and is evidenced by extracts from that register. Currently in Russia, there is no central registration system. Share registration is carried out by the companies themselves or, if a company has more than 500 shareholders or elects, by specialized registrars located throughout Russia. Regulations have been issued by the Federal Commission on Securities Markets regarding the licensing conditions for such registrars and the procedures to be followed by them when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or mere oversight by registrars incapable of compensating shareholders for their misconduct.

The Russian tax system could materially adversely affect an investment in our ADSs.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added and other sales-based taxes;
- excise taxes; and
- social and pension contributions.

All of these taxes are subject to frequent change. Additionally, each region may establish regional sales tax applicable to sales of goods and services to individuals at a rate of up to 5%.

Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often unclear or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations, such as the Ministry of Taxes and Duties and its various inspectorates, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

The taxation system in Russia is subject to frequent changes and inconsistent enforcement at the federal, regional and local levels. In some instances, new taxes have been given retroactive effect. In addition to our substantial tax burden, these conditions complicate our tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses and at times we have taken a position that is aggressive in this regard, but that we consider to be in compliance with current law. This uncertainty exposes us to significant fines and penalties and to enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden. To date, the system of tax collection has been relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise government revenues. These factors, plus the existence of large government budget deficits, raise the risk of a sudden imposition of arbitrary or onerous taxes on us. This could adversely affect the value of our ADSs.

The Russian government has initiated a revision of the Russian tax system. The new tax system is intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the proposed tax system continues to rely heavily on the judgments of local tax officials and fails to address many existing problems. Even if further reforms to the tax code are enacted, they may not result in a reduction of the tax burden on

Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. Accordingly, we may have to pay significantly higher taxes, which could have a material adverse effect on our business and on the value of our ADSs.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of our Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit, respectively, of another of our entities. Because Russian legislation contains no consolidation provisions, dividends within the entities comprising our group are subject to Russian taxes at each level. Currently, dividends are taxed at 15%, and the payer is required to withhold the tax when paying the dividend.

You may not be able to benefit from the United States-Russia double tax treaty.

The Russian tax rules applicable to U.S. holders of our ADSs are characterized by significant uncertainties and by an absence of interpretive guidance. Russian tax authorities have not provided any guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In particular, it is unclear whether Russian tax authorities will treat U.S. holders as the beneficial owners of the underlying shares for the purposes of the United States-Russia double tax treaty. If the Russian tax authorities were not to treat U.S. holders as the beneficial owners of the underlying shares, then the U.S. holders would not be able to benefit from the provisions of the United States-Russia double tax treaty. Even if U.S. holders are treated by the Russian tax authorities as the beneficial owners of the underlying shares, U.S. holders still may not be able to benefit from the provisions of the United States-Russia double tax treaty due to the complicated administrative procedures involved in claiming these benefits. In this event, dividends paid to U.S. holders generally will be subject to Russian withholding tax at a rate of 15% to 30% for individual holders rather than the reduced 5% to 10% rate under the United States-Russia double tax treaty. See “See Item 10. Additional Information—E. Taxation—Russian Income and Withholding Tax Considerations—United States-Russia Income Tax Treaty Procedures” for a more detailed discussion of this issue.

By investing in Russian securities, you may be subject to registration with the Russian tax authorities and could be liable for imputed Russian income, and tax might be withheld on trades of our common shares and ADSs, reducing their value.

The tax risks of investing in Russia can be substantial. There is a risk that trading in Russian securities will require registration with the Russian tax authorities and could subject an investor to tax liability for imputed Russian income. Moreover, a Russian Tax Service Instruction provides for a withholding tax on gains arising from the disposition of Russian shares and securities, such as shares of our common stock. The Russian tax authorities may attempt to apply withholding tax on gains derived from trading our ADSs. No procedural mechanism currently exists to withhold any capital gains or for subsequent remittance of such amounts to the Russian tax authorities with respect to sales made between non-residents.

The Russian tax authorities require a Russian resident to withhold 20% of the purchase price paid to a non-resident for the purchase of any security unless the cost basis of the security can be confirmed. A refund of all or a portion of the tax withheld may be available if an exemption or lower rate of withholding tax is provided for by an applicable tax treaty. However, obtaining the benefits of any relevant tax treaties can be difficult due to the documentary requirements imposed by the Russian tax authorities. See "See Item 10. Additional Information—E. Taxation—Russian Income and Withholding Tax Considerations—United States-Russia Income Tax Treaty Procedures" for a discussion of these document requirements. If any such tax is assessed, the value of an ADS or a share of common stock could be materially adversely affected.

Item 4 Information on Our Company

A. History and Development

We trace our history back to 1992, when the first enterprise owned by a group of individuals began leasing a production line at Lianozovo Dairy Plant and purchasing juice concentrates and packaging materials. On November 25, 1992, we produced the first carton of juice carrying the Wimm-Bill-Dann brand name. We selected this brand name to attract consumers who preferred products with foreign names due to perceived higher quality and novelty and, since its introduction, the "Wimm-Bill-Dann" name has become a brand name recognized in a substantial percentage of Russian households.

To take advantage of the opportunities arising from the privatization of Russian state-owned assets, our current shareholders then began acquiring shares in the Lianozovo Dairy Plant in Moscow, and continued to expand their juice product enterprises. Our growth has been accomplished, in part, through significant acquisitions, including the following:

- In 1995, we acquired large stakes in the Lianozovo Dairy Plant, acquiring majority control in 1995;
- In 1996 and 1997, we acquired majority stakes in the Moscow Baby Food Plant, the Tsaritsino Dairy Plant and the Ramenski Dairy Plant;
- In 1998 and 1999, we began to expand into regions outside Moscow, acquiring dairy plants in Novosibirsk, Nizhny Novgorod and Vladivostok;
- In 2000 and 2001, we acquired majority stakes in dairy plants in Bashkortostan and the Krasnodar region in Russia, as well as plants in Kiev, Ukraine and Bishkek, Kyrgyzstan;
- In July 2001, we completed the acquisition of additional 15% interests in Lianozovo Dairy Plant and Tsaritsino Dairy Plant;
- In July and August 2001, we acquired 100% interests in dairy plants in Altaisky and Voronezh regions of Russia; and
- In April and May 2002, we acquired control of three dairy plants in Krasnodar, Belgorod and Samara regions.

Additionally, in the latter part of 2000, we began a corporate and organizational restructuring to facilitate our initial public offering and our future expansion, both within the CIS and internationally. As part of this restructuring, we disposed of our interests in Expobank and four breweries. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources" for more information regarding these disposals. Our operations are currently organized into three divisions: dairy products, juice products and water products, all operating under the umbrella of our holding company, Wimm-Bill-Dann Foods OJSC, which was incorporated on May 31, 2001.

We completed our initial public offering on February 14, 2002 and listed our shares of common stock, representing American Depositary Receipts, or ADRs, on the New York Stock Exchange under the symbol "WBD." Each ADR represents one underlying share of our common stock.

For a description of our principal capital expenditures and divestitures since our initial public offering, as well as those currently in progress, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources."

Our legal name is Wimm-Bill-Dann Foods OJSC, and we are incorporated under the laws of the Russian Federation. We operate in the Russian Federation under a number of different commercial and brand names, as more fully described in "Item 4. Information on Our Company—B. Business Overview—Our products and brands." Our head office is located at 16 Yauzsky Boulevard, Moscow 109028, Russian Federation, and our telephone number is +7-095-733-9726. We have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715 as our registered agent for service of process.

B. Business Overview

We are a large, fast-growing Russian manufacturer of dairy and juice products. In 2001, approximately 72% of our net revenues were derived from sales of dairy products and approximately 28% from sales of juice products. Since our founding in 1992, we have become a market leader in Russia in both the dairy and juice products markets. In the dairy products market, according to an AC Nielsen study of nine major cities located throughout Russia, including Moscow and St. Petersburg, we were the market leader from February 2001 to January 2002 in all packaged dairy markets except for pasteurized milk, with market shares by sales volume of 34% in traditional dairy products, 41% in enriched dairy products and 48% in yogurt and dessert dairy products. In the juice products market, in 2001, according to an AC Nielsen study of eleven major cities located throughout Russia, we had a 37.5% share of the Russian juice market, and a 49.1% share in Moscow, the largest juice-consuming area in Russia. We have 17 manufacturing operations in 13 locations in Russia and the other countries of the Commonwealth of Independent States, or CIS, and our distribution network encompasses 26 cities in the CIS, Germany, Israel and the Netherlands.

Our goal is to offer our consumers quality food products through the use of carefully selected raw materials, modern production technology and strict quality control. All of our products are made according to our own recipes and reflect our understanding of consumer demand.

Our principal dairy products include

- Traditional products, such as sterilized and pasteurized milk, butter, cream and cheese, as well as traditional sour-milk products such as kefir, cottage cheese, soft cottage cheese and sour cream;

- Yogurts and dairy desserts, such as traditional and drinking yogurt, mousse, fruit-flavored milk and kefir, puddings and fruit-flavored cottage cheese;

- Health-oriented enriched products, such as milk and sour-milk products enriched with vitamins, microelements, bifi-bacterium, and other components; and

- Dairy products for infants and children, such as milk, sour milk, dairy desserts and other dairy products intended for use by infants under the age of 3.

Our juice products include

- Juice and nectars produced from juice concentrate;

- A traditional berry-juice-based drink;

- Other juice-based drinks; and

- Juice products for children.

Our principal geographic market is Russia, with the Central Region of Russia, encompassing Moscow, St. Petersburg, Voronezh, Nizhny Novgorod and Kazan, being the most significant. Following is a map showing the location of our production facilities and the number within each city, as well as the location of our primary distribution centers. Each production facility, or plant, is owned by a separate subsidiary of ours.

Map of Wimm-Bill-Dann's Operations

- Manufacturing plants
- Distribution centers

Business Strategy

We aim to produce quality food products; to retain a leading position in our core areas of business; and to achieve growth in revenues, cash flow and earnings. To achieve these objectives, we have the following strategies:

Focus on our core areas of business: dairy and juice products. We focus on two areas of food and beverage consumption: dairy and juice products. We believe that we are well-positioned to retain and enhance our leading positions in these core businesses by:

- *Leveraging market leadership.* We believe that, as the Russian dairy and juice products markets mature, only leading national and local brands will be able to maintain their competitive positions, and that significant consolidation is likely. As we continue to focus on our brands and products with leading market shares in their respective segments, we also intend to pursue selected acquisition opportunities to enhance our market leadership in our core businesses.

- *Reviewing our brand portfolio and focusing our marketing efforts on key brands.* We will continue to review our brand portfolio with a view towards maintaining only our existing best-known brands and new brands with significant potential. We also intend to strengthen the selling power and premium status of our best-known brands by consolidating under them our various existing product groups and the product groups of businesses we acquire and by using them to enter new markets and launch new products. For instance, we initially used our "Little House in the Village" brand to market only milk in Moscow, but now utilize this brand to sell a wide range of dairy products such as milk and sour-milk products across Russia. We also introduced in 2001 a new brand name, "Ginger Up," which we intend to use for our dairy and juice products targeted at children. Our overall goal is to ensure that all our brand names are associated with quality products in all markets in which we operate.

- *Continuing new product development*. We intend to continue our new product development efforts, particularly in the area of value-added products, in order to enhance our capacity to respond effectively to competitive developments and changing consumer preferences.

- *Increasing share of value-added products.* We intend to invest in production facilities and increase our marketing and new product development expenditures in order to increase our production and sales volume of value-added products, as opposed to commodity products often associated with narrower operating margins. In particular, we intend to increase our sales of yogurt, desserts, enriched dairy products, mixed juices and new flavor juice products as a percentage of our total sales volume. For instance, in 2001 we introduced the juice and dairy mix "Mazhitel."

- *Promoting dairy product and juice consumption culture.* We believe that the markets for juice and certain dairy products in Russia and other countries of the CIS are underdeveloped, partially as a result of cultural factors. We intend to promote continued growth in consumption of these products in Russia and other CIS countries by increasing the availability of quality products and through marketing and advertising activities.

Expand the geographic reach and the production capacity of our core businesses. In 2001, we acquired production units in various regions of Russia and the CIS. We believe that the establishment of large production units in the regions that are characterized by high population density and the availability of abundant raw material resources is an efficient development strategy. Among the advantages of having production capacities in the regions of Russia are the avoidance of high transportation costs, the availability of a low-cost labor force and, importantly, the availability of low cost milk resources, which are generally approximately 20% cheaper than in Moscow.

We believe that the fragmented nature of the dairy and juice products industries in Russia will continue to give rise to opportunities to make value-enhancing acquisitions of manufacturers, to build new capacity and to attract new customers, all of which should help increase our product sales volume and geographic coverage. We intend to continue to implement this strategy, which we expect will involve the investment of approximately $163.0 million over two years for the acquisition and construction of production capacity and new equipment, as follows:

- *Dairy.* We have developed and are now implementing a regional expansion program which contemplates the acquisition and construction of new plants in Samara, Yekaterinburg, Krasnoyarsk, Kazan, and St. Petersburg in Russia and Kharkov, Nikolayev and Donetsk in Ukraine, as well as in Belarus, Latvia, Lithuania, Uzbekistan, Kazakhstan and Azerbaijan. We intend to purchase prominent regional dairy enterprises in these regions, invest significant amounts into their modernization, replace their management systems with our own and integrate their products under our brands, helping ensure that these plants maintain leading positions in their regional markets.

- *Juice and juice products.* We intend to increase our juice production capacity at existing plants which we believe have the potential to become supply centers for those regions that offer substantial potential for sales growth due to a combination of demographic factors and consumption patterns. We will continue to add new juice production capacity at our Ramenski and Tsaritsino Plants in Moscow, Timashevsk Dairy Plant in Krasnodar and Siberian Dairy Plant in Novosibirsk in Russia, as well as at the Kiev Dairy Plant in Ukraine and the Bishkek Dairy Plant in Kyrgyzstan. We plan to expand our juice distribution network in order to offer our current customers increased product availability, as well as to provide local client service and logistics support.

Improve operating efficiencies. We intend to improve the quality of our products, reduce our costs, increase our cash flow and improve employee productivity through:

- *Modernizing existing production facilities.* We plan to continue to invest in our existing production facilities, with a particular focus on recently acquired assets that are intended to become supply centers for growing markets. We plan to continue to make expenditures to upgrade our dairy production facilities in Ramenski, Kiev, Bishkek, Ufa, the Altai region and Voronezh, as well as to install packaging lines for sour-milk products at almost all our plants. This plan will also include the installation of modern processing equipment, which should result in the reduction of our production, raw material and labor costs through higher operating efficiency and less raw material wastage. It will also enable us to increase our production of value-added products.

- *Controlling costs.* We review our cost base to identify costs which may be reduced by improving technology, modernizing production assets, replacing high-cost suppliers and streamlining our management structure. We intend to continue to increase gradually the share of our raw materials represented by local suppliers, which tend to be cheaper than imported materials. We also review our workforce, particularly in newly acquired plants, to help ensure productivity. We also attempt to exploit synergies within our group of companies through the pooling of sales, purchasing and administrative resources.

- *Centralized Management.* We will continue to follow our business development strategy of strengthening our centrally managed corporate function in order to further streamline and optimise our distribution, pricing policy, brand management, logistics and TV advertising policy among our subsidiaries.

- *Increasing direct distribution to retailers.* We will continue our efforts to increase our direct distribution to retailers and reduce our reliance on independent distributors. Direct distribution provides us with improved margins, greater influence on the final pricing of our products, increased marketing potential and improved ability to influence distributors through greater independence from their services.

- *Minimizing dairy distribution costs through local production*. We intend to pursue a strategy of manufacturing dairy products in the same region in which they are consumed, decreasing our distribution costs and, consequentially, the price of our products.

- *Using the seasonality of milk production to our advantage*. We intend to extend our dairy production capacity to include dairy products such as dried and condensed milk which can be produced during periods of high raw milk production and then utilized in our production process during periods of high raw milk prices.

- *Creating incentives for our employees.* As we have grown, we have increased our efforts to reward employees for their contribution to the success of our business, to provide incentives for continued efforts and to align their interests with those of our shareholders. We intend to continue to develop incentive programs for employees, including a long-term share option plan.

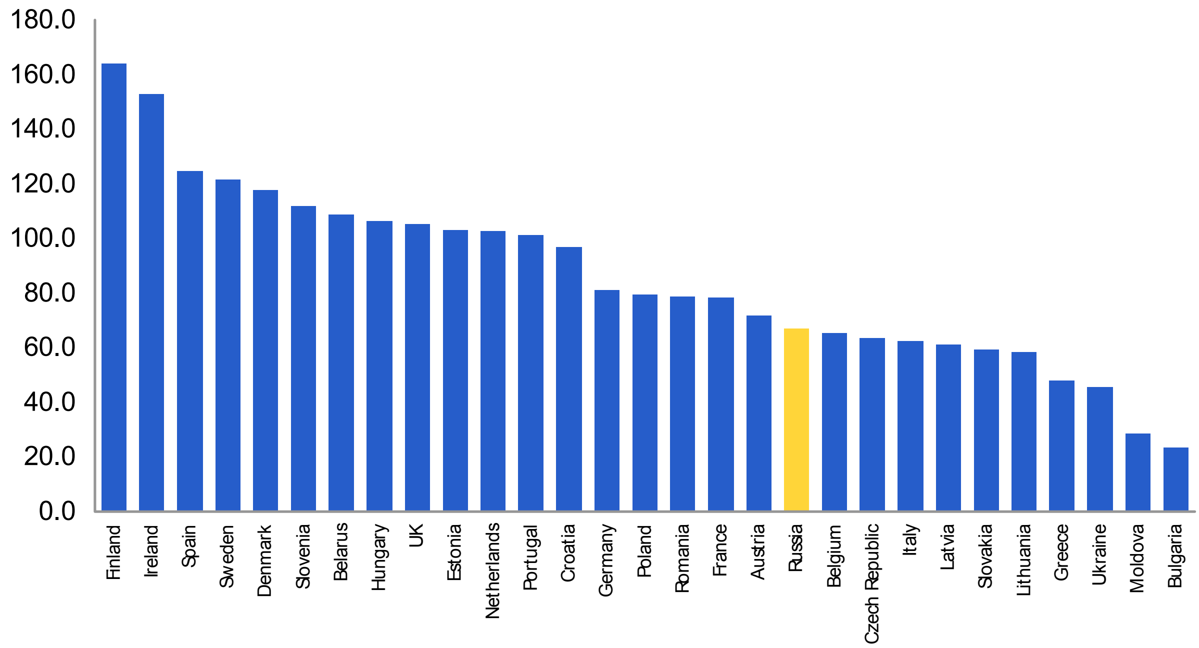
Expand into the production of cheese. Domestic cheese production in the Russian Federation is mostly dominated by small producers who produce low-priced, low-quality traditional cheese products aimed at the mass-market segment. Premium processed and hard cheeses are primarily imported from the Baltics and elsewhere in Europe. We expect to begin branded cheese production in 2002, producing traditional cheese products for the middle-market segment. In 2003, we intend to begin production of branded premium hard and processed cheeses. We believe that we will spend an estimated total of approximately $18 million on cheese production facilities and equipment through 2006. In addition, for information regarding our re-sale of cheese produced by, and branded under, third parties in 2001, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Results of Continuing Operations.”

Expand into the production of mineral water. While maintaining our focus on our core businesses, we intend to begin the production of natural mineral water at the end of 2002. We believe that, despite relatively strong competition, the mineral water segment has significant potential if the appropriate marketing approach is used, and that our marketing expertise makes this an attractive opportunity for us. As mineral water consumption is higher during the summer months, this segment will also enhance the ability of our existing juice products line to counterbalance the seasonal nature of the dairy products business.

Wimm-Bill-Dann Foods’ market place

Dairy industry

Consumption. Russian dairy consumption is relatively low compared to most European countries and is characterized by two primary trends – the comparatively stable development of the market for traditional dairy products and a more rapidly developing market for yogurt and dessert dairy products. The following table illustrates per capita consumption of liquid dairy products in liters per year in selected European countries in 2000:



Source: Tetra Pak

Consumption of liquid dairy products

According to Tetra Pak, a Swedish food product packaging manufacturer from which we purchase a substantial portion of our packaging materials, per capita consumption of liquid dairy products in Russia was 65.2, 65.7, 67.0 and 68.9 liters per year in 1998, 1999, 2000 and 2001, respectively, levels that are relatively low compared to the majority of European countries. The demand for dairy products remained relatively stable in the aftermath of the

1998 Russian financial crisis and the ensuing decline in per capita income, as dairy products are generally staple consumer goods. Additionally, increasing per capita income following the 1998 financial crisis has positively affected dairy consumption, particularly of higher-priced products such as yogurt and dessert dairy products.

Also according to Tetra Pak, consumption of packaged liquid dairy products increased by 2% between 1999 and 2000. We believe that packaged dairy product consumption levels will continue to increase as consumption of bulk liquid milk decreases due to increasing per capita incomes, the growing desire and demand for sterilized milk and the greater convenience of packaged products. Consumption of bulk liquid milk, which generally consists of unpackaged milk sold in markets to consumers who bring their own packaging, is still relatively common in Russia.

Additionally, a number of packaged dairy products are relative newcomers to the Russian market. For instance, yogurt is a relatively new product for Russian consumers. Since its first widespread commercial appearance in Russia in the early 1990s, yogurt's popularity has increased. Per capita consumption, however, remains low. According to a U.S. Department of Agriculture report, annual per capita consumption in Russia in 2000 was about one kilogram, whereas the general range for most European countries was 15-20 kilograms. Other new dairy products in Russia include dairy desserts, mousse, fruit-flavored traditional products, flavored milk and juice-milk products.

Production. Milk production in Russia declined dramatically during the 1990s. The decline in milk production and processing was exacerbated by the general state of the Russian economy, a lack of raw materials due, in part, to the slaughter of dairy cows necessitated by a shortage of feed, and a sharp increase in energy prices. Additionally, the majority of Russian milk producers, comprising individual farmers and collective agricultural enterprises, operate with inefficient and outdated facilities and equipment and utilize outdated management practices.

The result of this decline was a drop in processing volumes and increasing reliance upon imported dairy products. While the financial crisis of 1998 aided Russian producers to some extent, as it pushed imported foods out of the Russian market, it also caused difficulties for Russian companies that depended on imported materials for production. In general, producers which were able to limit their exposure to fluctuations in the value of the ruble and to establish links with Russian suppliers survived the crisis and took leading positions in the marketplace. The milk processing sector, however, still remains fragmented and currently includes over 3,200 large, medium and small enterprises. There is evidence, though, that the process of consolidation is continuing, with the less efficient producers going out of business or being acquired by larger companies.

Additionally, foreign, particularly European, producers have recognized the potential for growth in demand in Russia for milk, yogurt and dairy desserts and are investing in the Russian market. A number of European producers, such as Danone, Parmalat, Campina and Ehrmann, have begun producing dairy products in Russia, and comprise our principal competition in the yogurt and dairy deserts segment of dairy products.

Juice products industry

Consumption. Before the early 1990s, consumption of juice products in Russia was limited. Juice products produced in the Soviet Union included only vegetable juices and fruit juices made of locally grown fruits such as apples and pears. Most Russian households tried orange, pineapple, grapefruit and other exotic fruit juices for the first time in 1991 and 1992, following the dissolution of the Soviet Union. Russian juice consumption grew each year until 1998, when consumption fell following the 1998 financial crisis and the resultant reduction in Russian incomes and spike in the ruble cost of imported juice packages and ingredients for juice production, which significantly increased the cost of juice products. While Russian juice consumption has begun to recover from the effects of the 1998 financial crisis, it is still relatively low compared to most European countries. The following table shows annual per capita juice product consumption in liters in Russia and selected European countries in 2000:

Country	2000
Russia	5.0
Italy	10.5
Spain	19.9
Germany	59.0

Source: Tetra Pak

The annual per capita juice product consumption in Russia in 2001 was estimated by the Russian Union of Juice Producers to be between 7 and 8 liters.

Production. Following the dissolution of the Soviet Union and the economic reforms that liberalized import procedures, foreign producers were able to capture a significant share of the Russian juice market by importing their products. However, the 1998 financial crisis caused a majority of the foreign companies to leave the market, and also forced a majority of Russian producers to decrease or discontinue juice production.

Since then, the juice products market has begun to recover. Since 1999, the market for juice products has witnessed significant increases in sales volume, stimulated by rising Russian incomes and an increased interest in health issues, as well as by the advertising efforts of juice producing companies.

Additionally, a number of Russian producers which survived the 1998 financial crisis have managed to restructure their production facilities using Western technologies and to strengthen their market positions. In 2001, according to Tetra Pak, Russian producers had a market share of 93%. Russian producers often use cheaper domestic inputs and modern packaging technologies, and they increasingly promote their brands on a national level. The industry is now also beginning to consolidate, as demonstrated by the increase in acquisition activity and the decrease in the number of brands on the market. According to an AC Nielsen survey conducted in Russia's eleven largest cities, in 2001, there were approximately 90 brands of juice products in the Russian juice market, though 90% of the market share was held by only 26 of these brands. Western companies, whose products dominated the Russian juice market a few years ago, now have been forced to increase promotion of their brands and to develop local manufacturing to compete with Russian producers.

Our products and brands

Our dairy and juice products accounted for 72% and 28% of our net sales in 2001, respectively. Our principal geographic market is Russia, with the Moscow market being the most significant. The following table sets forth our annual consolidated net sales, the proportion of consolidated net sales accounted for by our main business lines, our reported annual production volume and the growth rate by production volume of our main business lines:

	1999	2000	2001
Dairy products			
Sales (in millions)	$256.7	$325.5	$485.4
Percent of total sales	71.8%	70.0%	72.0%
Sales volume (in metric tons)	533.6	630.2	847.2
Annual volume growth (% year on year)	21.2%	18.1%	34.4%
Juice products			
Sales (in millions)	$101.0	$139.9	$189.2
Percent of total sales	28.2%	30.0%	28.0%
Sales volume (in metric tons)	190.7	250.3	327.1
Annual volume growth (% year on year)	19.4%	31.2%	30.7%
Total net sales (in millions)	357.7	465.4	674.6

Dairy products and brands

Our principal dairy product lines, types of products, brands, and their approximate percentage of our total production by volume in 2001 are as follows:

Product line	Types of products	Brands	Approximate percentage of total production by volume	Approximate percentage of total production by volume in 2001
Traditional products	Sterilized and pasteurized milk, butter, cream and cheese, as well as traditional sour-milk products such as kefir, cottage cheese, soft cottage cheese and sour cream	"Little House in the Village," "Darling Mila," "Kuban Cow," "Happy Milkman," "Nizhny Novgorod," "M" and "Slavyanochka"	67%	68%
Yogurts and dairy desserts	Traditional and drinking yogurt and dairy desserts, including mousse, fruit-flavored milk and kefir, puddings and fruit-flavored cottage cheese	"Wonder," "Dessertino," "Frugurt," "Lada" and "Ginger Up"	20%	20%
Health-oriented enriched products	Milk and sour-milk products enriched with vitamins, microelements, bacterium and other components	"Bio-Max," "Mazhitel" and "Doctor Bifi"	8%	7%

Product line	Types of products	Brands	Approximate percentage of total production by volume	Approximate percentage of total production by volume in 2001
Dairy products for infants and children (Children's Food)	Milk, sour milk, dairy desserts and other dairy products intended for use by infants and children	"Agusha" and "Ginger Up"	5%	5%

The Russian market for packaged dairy products has several defined market segments. The market can also be divided into non-branded and branded products, although non-branded products generally only cover the mass market segments. Our branding policy is designed to ensure that we reach customers of most segments with the right mix of brands, brand images and packaging formats. We support strong national brands, as well as local brands which are well established in the regions. The following chart illustrates our estimates of the current market segment positioning for our major brands, as well as a general description of the purchasers which each market segment covers:

	General purchaser characteristics	Traditional products	Yogurts and dairy desserts	Health-oriented enriched products	Dairy products for infants and children
Premium	• Aged 25-45 • Annual income of $3,000 or more		Mazhitel	Biovit	
Upper-middle	• Aged 25-45 • Annual income of $1,250 or more	"Little House in the Village"	"Dessertino"	"Bio-Max"	"Ginger Up"
Middle	• Aged 18-65 • Annual income of $800 or more	"Happy Milkman"; "Slavonian"; "Darling Mila"; "Kuban Cow"	"Wonder"	"Doctor Bifi"	"Agusha"
Mass	• Aged 35-55 • Annual income of $400 or more	"Nizhny Novgorod"; "M"	"Frugurt"; "Lada"		

Note: Our estimates of annual income have been converted to dollars for your convenience. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Exchange Rates and Inflation."

In general, we seek to maintain at least one brand within most dairy market segments, and we intend to develop new brands to expand our coverage of attractive segments. For example, we recently developed the “Ginger Up” brand, which is targeted at children and includes traditional dairy products as well as juices.

Market trends and competition. Overall, the Russian dairy market has been growing modestly over the last three years. According to Tetra Pak, the total market for liquid dairy products, including both bulk and packaged products, and defined as the total consumption of domestically produced and imported products, was 9.5 billion liters in 1998, 9.6 billion liters in 1999, 9.8 billion liters in 2000 and 10.3 billion liters in 2001. We believe that consumption may continue to increase as rising household income in Russia encourages higher protein consumption and increases preferences for products with longer shelf life and value-added dairy products with different taste, nutritional and functional characteristics. In particular, Russian households have proven receptive to yogurt and dessert dairy products and, given existing low per capita consumption, we see this market segment as providing an opportunity for growth.

Our principal objective is to produce quality products to satisfy the demands of consumers, using quality ingredients, modern technology and the results of scientific research. Due to our marketing strategy, large distribution network and effective product promotion, we have managed to gain leading positions across most dairy product sectors in the Russian market. According to a study by AC Nielsen in nine major cities located throughout Russia, from February 2001 to January 2002, we were the leader in most all packaged dairy markets with a market share, in terms of sales volume, of 34% in traditional dairy products, 41% in enriched dairy products and 48% in yogurt and dessert dairy products. Also, we process a significant portion of the raw milk processed in Russia. Based upon statistics of the Statistical Committee of the Russian Federation, in 2000, total raw milk production in Russia was 32.28 million tons, of which 12.16 million tons was used in industrial processing and the rest was used for immediate consumption. In 2001, total raw milk production in Russia was 32.86 million tons, of which 12.84 million tons was used in industrial processing and the rest was used for immediate consumption. The 709,000 tons and 935,000 tons of raw milk that we processed in 2000 and 2001, respectively, constituted approximately 5.8% and 7.7% of the total industrial raw milk processed in Russia.

The milk processing sector in Russia remains fragmented and currently includes over 3,200 enterprises. Due to the high degree of fragmentation, the market is very price competitive. In 1999, we responded to this competitive challenge by holding our prices constant in an inflationary environment, while in 2000 we expanded our distribution service, reduced our sales to wholesalers and increased our sales to retailers, and increased advertising. We believe that these strategies have increased public awareness of our products and increased direct distribution to retailers, which helps us to continue to expand our market share without aggressive pricing.

In the traditional dairy products markets we compete primarily with local producers, such as St. Petersburg-based Petmol and Moscow-based Ostankino Dairy Plant, Ochakovo Dairy Plant and Cherkizovo Dairy Plant, as well as with a number of smaller producers in other regions of Russia. In the enriched dairy products market we compete primarily with Danone. In the yogurt and desserts market and, to some extent, in the children’s products market, we compete with foreign producers such as Danone, Campina, Onken and Ehrmann. We view the following producers as our primary competitors:

- *Danone,* a French company which is the most active foreign producer in Russia and aggressively promotes its products. It has a dairy plant in the Volga region where it produces yogurt, fruit yogurts and kefirs, as well as a dairy plant in the Moscow region. Its domestically produced and imported products are sold under the Danone brand name across Russia through its own distribution network. According to the nine-city AC Nielsen study, in 2001, Danone had an 12% market share by sales volume in yogurt and dessert dairy products and a 5% market share in enriched dairy products.

- *Petmol,* a St. Petersburg-based company that produces a wide range of dairy products, although it focuses on yogurts and desserts. It is publicly traded in Russia, and we believe that Parmalat is currently considering acquiring it. According to the nine-city AC Nielsen study, in 2001, Petmol had a 9% market share by sales volume in traditional dairy products, an 9% market share in enriched dairy products, and an 8% market share in yogurt and dessert dairy products. According to the same study, Parmalat had a 2% market share by sales volume in traditional dairy products.

- *Ostankino Dairy Plant*, a Moscow-based company and one of the largest dairy plants in Russia. It is our principal competitor in Moscow, with a particularly strong milk brand. According to the nine-city AC Nielsen study, in 2001, Ostankino Dairy Plant had a 3% market share by sales volume in traditional dairy products, a 3% market share in enriched dairy products, and a 3% market share in yogurt and dessert dairy products.

We believe that we generally have several advantages over other Russian producers, including larger production capacity and higher quality of products, as well as greater innovation, new product development and marketing capabilities. However, many other domestic producers tend to benefit in comparison to us from lower cost bases, including lower advertising and distribution costs, and, for certain consumers, a preferred image. Recent trends also indicate that industry consolidation may lead to the appearance of larger domestic producers, which could become significant competitors. For example, according to press reports, a subsidiary of Multon, our principal competitor in the Russian juice market, acquired a 20% stake in the Ochakovo Dairy Plant in December 2001, and the two controlling shareholders of Multon subsequently acquired a 48% stake in the Ochakovo Dairy Plant. This acquisition of 68% of the Ochakovo Dairy Plant by Multon and Multon shareholders may increase the competitive position of the plant in the Russian dairy market by affording it the benefits of Multon's wider distribution network and marketing potential.

Foreign dairy manufacturers generally have large promotional budgets and advanced production know-how, allowing them to offer quality and innovative products, and strong distribution networks. While foreign manufacturers generally tended in the past to focus on market niches, usually in the premium segment, they are now increasingly concentrating on producing products for the average Russian consumer with an average income. Moreover, whereas our foreign competitors tended in the past to rely primarily on imported products, which are more expensive, a number of these companies, such as Danone, Parmalat, Campina and Ehrmann, have invested in domestic production facilities, reducing the competitive advantages that we have over foreign competitors without domestic production capability. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would adversely affect our market share and results of operation."

For example, Danone owns two plants in Russia and has introduced several of its yogurt brands into the Russian market, some of which were developed specifically for Russian consumers. Dutch company Campina also owns a dairy plant in Russia that produces fresh yogurts and yogurts with a long shelf life. In addition, the German company Ehrmann produces yogurt at a Russian plant, and Onken and Pascual, two other foreign diary producers, plan to open plants in Russia in the near future. Due to their increased domestic production of yogurt and dairy desserts, our foreign competitors have become our main competition in these sectors, whereas we mainly compete with domestic producers in the traditional milk products sector.

We believe that we have several important competitive advantages that will allow us to maintain a leading position in the Russian dairy market: strong and diversified brands, stable access to raw milk, a broad proprietary distribution network, new product development focus, modern production assets and technology, access to external capital and a strong management team. We intend to take advantage of these strengths through our strategy of promoting brand awareness and loyalty with an emphasis on product quality, as well as by continuing our efforts of the last two years to focus on developing new products equal or better in quality than those offered by Western producers.

Juice products and brands

Our juices are produced primarily at Lianozovo Dairy Plant, Tsaritsino Dairy Plant and Ramenski Dairy Plant, as well as at Siberian Dairy Plant, Nizhny Novgorod Dairy Plant and Timashevsk Dairy Plant. In November 2001, we started producing our juice products at Vladivostok Dairy Plant. We maintain several strong juice products brands. For example, according to a study by Independent Marketing Consultants Association in Moscow in July 2001, our "J-7," "100% Gold" and "Lovely Garden" brands enjoyed brand awareness of 99%, 81%, and 85%, respectively.

Our principal juice product lines and types of products and brands are as follows:

Product Line	Brands and Types of Products
Juice and nectars produced from juice concentrate	• "J-7," covering 22 kinds of fruit, berry and vegetable juices and nectars; • "Rio Grande," covering 8 kinds of fruit and berry juices and nectars; • "100% Gold Premium," covering 12 kinds of fruit, vegetable and berry juices and nectars; • "Lovely Garden," covering 10 kinds of fruit, vegetable and berry juices and nectars; and • "Dr. Fresh," covering 8 kinds of fruit, vegetable and berry juices and juice-based drinks.
Traditional berry-juice-based drinks	• "Wonder Berry," covering 7 kinds of berry-juice based drinks.

Product Line	Brands and Types of Products
Other juice-based drinks	• "DJ," covering 8 kinds of fruit and berry drinks; and
Juice-content products for infants and children	• "Ginger Up," covering 5 kinds of fruit, vegetable and berry juice-based drinks and 7 kinds of fruit drink mixes for children.

Products in the juice products market tend to be branded. As with the dairy products market, there are four defined segments. However, the market segmentation tends to fall along different lines than the dairy products market, primarily due to the tendency for dairy products to be considered as food staples. We have positioned our portfolio of juice and nectar brands so that we have at least one of our brands in each market segment, and two or three brands in particularly competitive segments. Given the specialty nature of our other product categories, particularly our traditional berry-juice-based drinks, we maintain brands only in the upper-middle market price segment. The following chart illustrates our estimates of the current market segment positioning for our major brands, as well as a general description of the purchasers which each market segment covers:

	General Purchaser Characteristics	Juice and nectars produced from juice concentrate	Traditional berry-juice-based drinks	Other juice-based drinks	Juice-content products for infants and children
Premium	• Aged 25-45 • Annual income of $2,000 or more	"Rio Grande"			
Upper-middle	• Aged 20-50 • Annual income of $1,250 or more	"J-7"	"Wonder Berry"	"DJ"; "Kvasok"	"Ginger Up"
Upper-middle mass market	• Aged 16-50 • Annual income of $600 or more	"Lovely Garden"			
Mass market	• Aged 16-55 • Annual income of $400 or more	"Dr. Fresh"			

Note: Our estimates of annual income have been converted to dollars for your convenience. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Exchange Rates and Inflation."

Market trends and competition. The Russian juice market grew steadily from the time of the dissolution of the Soviet Union until the 1998 financial crisis, following which there was a significant dip in consumption from which the market had substantially recovered by 2000. According to Tetra Pak, the total market for juice products, defined as the total consumption of domestically produced and imported products, was 548 million liters in 1999 and 760 million liters in 2000. We estimate, based on data from AC Nielsen, GfK, Comcon and Profdata, that the total market for juice products in 2001 was approximately 1 billion liters. We believe that rising household incomes in Russia and the increasing preference for juice over fresh fruits, which generally accompanies increased incomes, will encourage the consumption of vitamin-rich, value-added products with different taste and nutritional characteristics. For example, according to the Russian Union of Juice Producers, in Moscow and St. Petersburg, which enjoy higher per capita income than most other parts of Russia, annual consumption of juice in 2000 was 21 and 12 liters per capita, respectively, as opposed to national per capital consumption of 5 liters.

The market for juice products in Moscow and the Moscow region tends to be relatively mature compared to other regions of Russia and is expected to exhibit relatively modest growth rates in the future. We believe that our growth opportunities are in those regions of Russia with lower fresh fruit availability or rising household income. We also believe that greater potential for growth lies in regions which are relatively undeveloped in terms of juice consumption, such as central and southern Russia, Siberia, the Far East and Ukraine.

Juice products consumption in the Asian part of Russia and Central Asia has exhibited limited growth, primarily caused by low purchasing power and the absence of a juice consumption culture in those regions. Given these market characteristics, we are pursuing a marketing strategy aimed at promoting juice drinking habits by emphasizing their health benefits. We expect growth in demand in these markets to be slower than in other parts of Russia.

The operating environment has been challenging since the 1998 financial crisis. Competitive pressures have intensified because of the low purchasing power of households and the rising number of domestic producers. In 1999 we responded to this competitive challenge by holding our prices constant in an inflationary environment, as well as by introducing two new brands, one targeted at the middle and the other at the mass market price segments. In 2000 we expanded our distribution service, reduced our sales to wholesalers and increased our sales to retailers, added another mass market brand and increased advertising. As a result, in 2001, according to the AC Nielsen study of eleven major cities located throughout Russia, we had a 37.5% share of the Russian juice market and a 49.1% share in Moscow. We believe that these strategies have increased public awareness of our products and increased our sales to retailers, which allows us to continue to expand our market share at acceptable prices.

Our principal competitors in the Russian juice market are Parmalat, an Italian company, as well as medium- and small-sized Russian producers, including the following:

- *Multon*, a St. Petersburg-based company that, in 2001, had market shares of approximately 29% and 18.7% in Russia and Moscow, respectively, according to the AC Nielsen study of eleven major cities located throughout Russia. Its “Kind,” “Niko” and other brands entered the Moscow market in 1998 and since then have gained significant market shares primarily through aggressive pricing policies.

- *Lebedyansky* is based in the Voronezh region and, in 2001, had market shares of approximately 10.9% and 14.5% in Russia and Moscow, respectively, according to the AC Nielsen study of eleven major cities located throughout Russia. Its “Tone” and “I” brands have become well-known among Russian consumers. “Tone” juices compete effectively against the juices of smaller producers.

- *Nidan-Ecofruct*, a Novosibirsk-based Russian-American joint venture that, in 2001, had a market share of approximately 6.4% in both Russia and Moscow, according to the AC Nielsen study of eleven major cities located throughout Russia.

An important factor behind the success of domestic producers is the relatively low price of the products which they can offer at a quality level satisfactory to consumers. However, we believe that we have significant competitive advantages over these Russian producers, including greater production capacity, marketing capabilities, brand awareness, brand value and distribution networks, as well as higher quality.

Several foreign companies invested in domestic production facilities during 2001, including Coca-Cola, which began large-scale production its "Minute Maid" brand juices at a production facility in the Russian city of Orel. In addition, the Russian-Finish joint venture United Juice Co. started production in St. Petersburg of its "Marli" brand juices, and the German Company Glocken Gold began to produce its juices at a plant outside of Moscow. Domestic production by foreign producers in Russia reduces the competitive advantages that we have over foreign competitors without domestic production capability. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would adversely affect our market share and results of operation."

However, we believe that we can compete successfully against foreign producers. We offer our customers quality juice products with a range of different tastes and nutritional characteristics. We sell our products through a broad proprietary distribution network with good customer service standards. Further, we have a quality brand portfolio which ranks highly in almost all market segments, and we plan to continue to devote significant resources to advertising and marketing our leading brands.

Bottled water

We obtain natural mineral water from an underground source at Valdaj, which is known for its quality ground water, and have a bottling site in Novgorod which currently produces bottled water in small quantities. We intend to begin commercial production of natural mineral water in late 2002, and commence larger-scale commercial production in mid-2003.

Although there is no significant history of consumption of non-aerated bottled drinking water in Russia, the situation is changing due to environmental factors. Especially in large cities such as Moscow, there is a rising interest in bottled drinking water. The mineral water market is expanding not only in terms of production volumes, but also in terms of the number of brands. Moreover, the number of Russian premium brands is growing, while the share of imported brands is declining.

We believe that our primary competitors in this area will be Pepsi's "Aqua Minerale" and Coca-Cola's "BonAqua," as well as Borzhomi, Narzan and Saint Springs, all of which are produced in the CIS.

We plan to position our new brand in a more up-to-date style, accentuating the fact that it is a naturally produced mineral water, and will offer a variety of carbonation levels (no carbonation, average carbonation, high carbonation) and bottle sizes, giving the consumer a wider choice.

New Product Development

We invest significant financial and human resources in new product development, focusing on long-term strategic development projects that are expected to create innovative products and technologies. Our new product development department, which averaged 22 employees by December 31, 2001 and is located at the Lianozovo Dairy Plant in Moscow, often cooperates with third parties such as Russian research institutions, specialized research firms and suppliers. In 1999 and 2000, we spent approximately $1.4 million to establish a department focused on new product development. During the year 2001, we spent approximately $1.3 million on new product development, which was comprised of $0.5 million spent on new product development and $0.8 million on the development of our own research center.

Much of our new product development effort over the past three years has focused on higher-margin, value-added yogurt and dessert products to help ensure that we can offer products which match the quality and variety offered by our main foreign competitors in Russia. At present, we are focused on the development of functional (enriched) dairy products oriented towards Russian consumers, taking into consideration the general deficit of micro- and macro-nutrients in the diets of the average Russian consumer. We attempt to link new product development with marketing and sales in an effort to create innovative products and technologies.

Recent new product developments include the “Ginger Up” brand, which is targeted at infants and children and includes traditional dairy products as well as juice drinks; a new range of functional dairy products produced under the “Bio-Max” brand such as thick yogurts, yogurt beverages with fruit, and bio-kefir with vitamins; a new range of dessert products for the “Dessertino” brand; and a new juice and dairy mix to be produced under the “Mazhitel” brand.

Besides new product development, recent technology innovations include the development of our own stabilizers and bacteria cultures for the production of certain dairy products. These new products will allow us to replace some of the raw materials which we currently import.

Advertising and Marketing

Our advertising and promotional strategies are prepared on a national basis with input from brand managers. Our general policy is to promote our brands and strengthen our image as a producer of quality products. To implement this policy, we create brand-oriented, national advertising campaigns for consumers throughout Russia. This advertising primarily consists of television commercials, and constitutes approximately 60% of our advertising expenditures.

Additionally, given the diversity of the regions in which we operate and in order to enhance flexibility in responding to regional market trends, we supplement our television advertising with regional advertising and marketing support, consisting primarily of advertisements on local TV, promotions, point-of-sale displays, merchandising and billboards. To the extent that this regional advertising is based on national campaigns, our regional advertising managers are responsible for adapting it to regional consumption patterns and needs. Regional campaigns can also be created by regional brand managers, subject to central coordination and approval.

Our advertising expenditures of $14.3 million in 2000 and $19.6 million in 2001, constituted 3.1% and 2.9% of net sales, respectively; we expect these expenditures, as a percent of net sales, to increase. According to Gallup, we were the seventh largest advertiser in Russia by advertising expenditures for 2000, and the eighth largest advertiser in Russian in 2001. We work with leading advertising agencies and design studios such as Ogilvey & Mathers, D'Arcy, MegaMedia / CIA, Media Arts / FCB, Sours Inc., Euro RSCG Maxima, Chris Ingram Associates, Future Brand Menu, Mildberryfield, Newton and others.

We direct the majority of our advertising expenditures to the promotion of our leading nationwide brands, such as "J-7" and "Wonder." We plan to continue to allocate the bulk of our advertising budget to a limited group of strategic brands which are highly ranked in their respective markets, helping us to compete against the non-branded products of small Russia producers, as well as against branded products produced by Western and larger Russia manufacturers. We also plan to continue our aggressive advertising of selected new products, such as our upper-middle market brands "Bio-Max," "Little House in the Village" and "Ginger Up."

We continually seek fresh outlets for promoting our brands. For example, we recently sponsored the television program "Survivor," the first reality-based series on Russian television. In this connection, our "J-7" brand products were featured in virtually all public relations and marketing relating to the Survivor program – on billboards, J-7 packaging, television and print advertisements, as well as on the show itself. Another example of innovative marketing is our active promotion of the "Ginger Up" brand, which is targeted at children, with aggressive media advertising, a specially created cartoon character, and a unique "Ginger Up" magazine for children.

We have also built brand awareness through charitable work and sponsored events. For several years, we have sponsored events of a program of the International Charity Foundation called "Hope Around the World." This program helps young orphans in 102 towns around the world. We also sponsor events of Ronald McDonald's Sports and Recreation Center for Children, which helps mentally and physically disabled children; cooperate with the Society for Helping Children with Heart Diseases; and assist in the organization of International Invalid's Day, organized under the auspices of UNESCO in Russia. We also support various Moscow children's charities and concerts for children. In addition, we serve as a trustee of the Charity Foundation for special grants, which is headed by Mstislav Rostropovich, a prominent Russian musician.

Sales and Distribution

The broad distribution of our products is an important element in maintaining sales growth and providing services to our customers. We attempt to meet the changing and increasing demands of our customers by planning appropriate stock levels and reasonable delivery times consistent with achieving optimal economics of distribution. In order to achieve these objectives, we have developed a proprietary network of distribution centers and sales offices that are strategically located in 26 cities in Russia and other countries of the CIS, , Israel, the Netherlands and Germany, providing us with a wide national presence and facilitating the sale of our products to more than 15,000 customers. For the purposes of establishing pricing policy, coordinating relationships with local authorities, production and raw material purchase planning, we divide Russia into two sales and distribution areas: European Russia and Asian Russia.

Distribution. Due to different consumption patterns and product characteristics, our dairy and juice products businesses require different distribution strategies. We have therefore built two largely independent distribution systems for our dairy and juice products, although we use the same marketing approach in each business and take advantage of synergies between the systems to the extent possible.

Given the limited shelf life of dairy products, their distribution tends to focus on local customers near the production facilities. Typically, key dairy sales personnel are located at the production plant and are responsible for regional sales activities, including facilitating orders and coordinating deliveries, customer account management, marketing analysis and reporting to headquarters. We also operate smaller representative offices in surrounding towns which have the same responsibilities for local customers.

Our child and infant dairy products, produced by the Moscow Baby Food Plant, are primarily purchased by the Moscow city government, which in turn distributes them through specialized milk kitchens located around Moscow and the Moscow region. In both 2000 and 2001, approximately 84% and 75%, respectively of our child and infant dairy products sales volume were distributed through these milk kitchens, with the remaining sales volume being sold through our distributors. The dairy products sales volume distributed through the milk kitchens decreased during 2001 while at the same time the volume of commercial sales of dairy products increased. Thus, whereas in January 2001, the dairy products sales volume distributed through these milk kitchens made up 79.9% of the distribution volume and 75.1% of the proceeds of the Moscow Baby Food Plant, by December 2001, the dairy products sales volume distributed through these milk kitchens made up 70.7% of the distribution volume and 63.1% of the proceeds of the Moscow Baby Food Plant. Our sales to the Moscow city government, which result from a competitive tender process and were at prices approximately 2% below market price in 2000 and 7% below market price in 2001, constituted approximately 5% of our total dairy product sales in 2000 and 4.4% in 2001.

Juice products have longer shelf lives than dairy products, which allows us to distribute these products to customers across the country. We have established a broad proprietary distribution network, with distribution centers in all key cities with populations of more than one million and representative offices and sales agents in smaller regions. Typically, a distribution center includes sales and marketing personnel dedicated to serving each customer group separately, and accounting and logistics personnel. Further, in order to build strong relationships with major customers, we have adopted a concept of key account management which enables us to negotiate better trade terms.

Customer base and pricing. We distribute our products through a variety of channels, including independent distributors and wholesalers, supermarket chains, small- and medium-sized grocery stores, open-air markets and restaurants. During 2001, approximately 75% of our products sales volumes were delivered through independent distributors and 25% of our products sales volumes were delivered by direct distribution, as compared to deliveries of approximately 85% of our dairy products and 70% of our juice products sales volumes through independent distributors in 2000. Our general distribution strategy is to increase the share of direct distribution to retail customers such as supermarket chains, grocery shops and restaurants. Increased direct distribution should improve margins, result in greater influence on the final pricing of our products, increase our marketing potential and improve our ability to influence distributors through greater independence from their services, although direct distribution will also result in higher transportation and sales costs. To this end, we have expanded our proprietary distribution network.

Independent distributors. As a percentage of our total sales, we sell approximately 73% of our milk products and 75% of our juice products through large networks of independent distributors, structured as follows:

- Our dairy distribution network consists of approximately 28 large independent distributors of dairy products in Moscow and 120 independent distributors throughout the rest of Russia. In 2002, we intend to decrease the number of the large distributors of dairy products in Moscow down to 14, enlarge them and compose an integral retail distribution network in Moscow. As planned, our dairy distribution network will continue to consist of 120 independent distributors throughout the rest of Russia.

- Our juice product distribution network consists of approximately 36 independent distributors in Moscow and 346 independent distributors throughout the rest of Russia.

A number of independent distributors with which we work purchase both dairy and juice products from us. We offer our independent distributors discounts off our base prices. A long-term tariff plan is developed with each independent distributor that provides the terms of the discount, deferred payments, and the advancement of goods. The terms of these tariff plans may be adjusted from time to time based on the performance of a distributor.

Independent distributors purchase directly from us and then resell our products through their own distribution centers. Given the importance of these customers, we process orders from independent distributors relatively quickly. Since the Lianozovo Dairy Plant computer center launched its electronic order system in January 2000, some of the transactions at the Lianozovo Dairy Plant with independent distributors have been executed through the Internet. In 2001, we started to use an automated order system with all of our independent distributors who purchase our products in large volumes, and we intend to start using this automated order system with our smaller distributors as well.

Our general policy with regard to independent distributors is to limit their influence on our business by restricting each distributor's purchases to no more than 10% of the total sales volumes of either our dairy or juice products. We therefore do not expect the number of independent distributors with which we work to grow in the future, as we seek to increase our direct distribution. Further, we seek to maintain control over the pricing of our products by distributors. Independent distributors which violate our pricing guidelines more than three times are no longer given a discount on our base prices. Monitoring of compliance with these pricing guidelines is conducted by a special department.

Supermarket chains. We sell approximately 11% of our total sales to supermarket chains in Russia. Our approach to supermarket chains is to increase our share in this sector by becoming the supplier of choice to the major retailers by developing key supplier relationships and improving customer service standards. We have focused our business on major retailers whose market shares are continuing to grow, such as Ramstore, Perekryostok, Seventh

Continent, Kopeika and others. Similar to independent distributors, supermarket chains receive a discount based on the volumes they purchase during each month. We aim to maintain retail price control in the same manner as with independent distributors. In the near future, we also plan to launch an online project currently under development with the Kopeika supermarket network. Outlets of this retail network will order products automatically through the Internet, and thus relieve some of the burden on our operators, with equipment and software provided by us that will enable them to access the Internet and upgrade their purchasing process. We have already implemented an Internet-based program for our Moscow distributors of dairy products, and plan to expand our Internet-based distribution program in the future.

While these relationships with supermarket chains are currently beneficial for us, we expect that the growth of certain chains and concentration of market power may increase the bargaining power of some of these customers. For example, some Russian supermarket chains have created an alliance in an attempt to obtain greater price discounts from manufacturers. We do not intend to seek or sustain uneconomic sales volumes and may withdraw from unprofitable business relationships. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our substantial reliance on independent retailers and wholesalers for the distribution of our products could lower our turnover and reduce our competitiveness." Additionally, while we do not currently pay for shelf space, we expect that this situation will change during 2002 as the market power of supermarket chains increases.

Small retailers. We sell approximately 5% of our total sales to small retailers. We have a dedicated sales force whose responsibility includes managing our relationship with small- and medium-sized grocery stores and open-air markets. Small- and medium-sized grocery stores and open-air markets are charged our base price. While we do not have any formal programs to monitor the retail prices charged by these entities, we encourage them to follow our pricing guidelines.

Cash-and-carry stores. In Moscow, we also have several cash-and-carry stores which sell primarily dairy products and through which we sell approximately 7.25% of our total sales. In 2000, these stores accounted for approximately 5% of our dairy product sales volume, and in 2001, the stores accounted for approximately 7.25% of dairy product sales volume in Moscow, mostly to small customers. Sales at these stores are at our base price. We intend to increase our sales through this type of store by opening more stores and expanding their sales to include juice products.

Other sales. We have become a supplier of McDonald's restaurants in Russia. Under our agreements with McDonald's, we supply sterilized milk for sale under the "McDonald's" brand in their restaurants.

Transportation. We sell from our plant warehouses, distribution centers, cash-and-carry stores or deliver. We deliver our products to customers directly using third party truck and railway delivery services and our own truck fleet. We do not charge our customers a delivery fee for the shipment of products to our regional distribution centers, though a delivery fee may be assessed for the delivery to a customer from such distribution centers.

Export program. In the Netherlands, Israel and Germany, we sell our products through our subsidiaries. Each of our subsidiaries maintains an administrative office, a warehouse, a distribution network, and a distribution system that provides deliveries directly to supermarket chains. We recruit personnel locally for these offices. We also export our products to the United

States, Canada, China, Mongolia, Estonia, Latvia and Lithuania through independent dealers, and directly export small amounts of dairy products to the U.S. Our total juice-export sales were approximately $0.4 million in 1999, $0.7 million in 2000 and $1.0 million in 2001.

In addition to the export of juice products, we also export our dairy products to other European and CIS countries. Our total dairy-export sales were approximately $0.4 million in 1999, $0.5 million in 2000 and $2.9 million in 2001. While these sales are not significant at present, we plan to increase the export of milk products to CIS countries.

We began exporting our products to Western markets in 1999, in particular our traditional berry-juice drinks which we marketed under the "Wonder Berry" brand. We selected this product in order to take advantage of the expansion of the red-berry juice market in Europe.

In preparing to begin our export program, we commissioned Indumar Ogilvey to conduct a survey of potential demand for our products in the Netherlands. Qualitative and quantitative testing of the "Wonder Berry" drink among Dutch consumers showed rather promising results, and we began to sell this drink in the Netherlands in the autumn of 2000. Wonder Berry is currently sold in stores throughout Benelux.

Another potentially important export market is Israel. In early 2000, we opened an office in Israel and started to sell our juices there, again primarily the "Wonder Berry" drink. In order to address consumer preferences in Israel, all of our juice products have been certified kosher.

We intend to continue market tests and market research in, as well as one-off deliveries to, foreign countries in order to determine future potential markets. Among the most important of these potential markets are those in Germany and Great Britain; we also shipped a test consignment of Wonder Berry to Australia. Further expansion of our export sales may then come in France, as well as in the United States and Canada.

In exporting our products to a country, we attempt to meet the applicable legislation governing the import of food products into the country. Independent distributors have, in some cases, attempted to export products to other countries that did not meet applicable legislation. For instance, an independent distributor attempted to export several of our juice products into the U.S. which did not conform to Federal Drug Administration requirements in October 2000.

Production and raw materials

Production efficiency and quality

As an internal quality standard, and in addition to compliance with the relevant Russian quality standards, we attempt to ensure that our products conform to the quality standards of organizations such as the World Health Organization, l'Association Francaise de Normalisation and the Food and Agricultural Organization, as well as the regulations of the European Union. We are also a member of the International Federation of Fruit Juice Producers and the Russian Union of Juice Manufacturers. We also helped the relevant Russian government agencies initiate and develop corresponding regulations for the Russian market.

In developing new types of products, we cooperate closely with the Institute of Nutrition of the Russian Academy of Medical Sciences, Moscow State University of Food

Production, and GFL-Laboratory from Berlin, Germany. This cooperation has provided our employees with scientific advice, solutions to technical problems and on-site training.

We have our own research laboratory with a team of scientists and experts. All our primary ingredients and samples of our final products undergo microbiological analysis and in-depth testing. In addition, we have laboratories at all of our plants that perform random quality checks on our products at all stages, including quality checks on the raw milk supplied by dairies to us, the materials at our production facilities, and our finished products in our warehouses. Some of our products have been singled out for their quality. For example, the Institute of Nutrition of the Russian Academy of Sciences has recommended the products of the Tsaritsino Dairy Plant for children from the age of eight months, as well as for pre-school children.

We have upgraded our facilities with advanced technological engineering. Our significant investments in manufacturing have helped enable our products to compete with those of leading domestic and international manufacturers. For example, at Lianozovo Dairy Plant, we have installed new productions lines of Tetra Brik Aseptic, of Tetra Pak, Sweden, for bottling juices, nectars and milk into cartons with a plastic cap and an application foil tape. Additionally, the reconstruction of the Moscow Baby Food Plant and installation of new production lines there has allowed us to improve the quality of our products from this plant. All the lines at the Moscow Baby Food Plant are now equipped with aseptic technology. The method of ultrafiltration we use at this plant also allows us to produce a children's cheese paste which retains its most beneficial nutrient, serum protein, giving it a higher nutritional value than similar products manufactured at other dairy plants.

We have uniform quality standards for all our enterprises. When we enter regional markets, we seek to raise the standards of consumption to a higher level, offering a wide range of quality products at reasonable prices.

We also seek to make efficient use of our milk supply and handle surplus raw milk resulting from seasonal differences in supply by processing this milk into longer-life products such as milk powder and butter. Our ability to handle these imbalances in supply is important for cost-effective purchasing of raw milk throughout the year.

Food raw materials

The main raw materials we use to produce our dairy and juice products include the following:

- raw milk, which we generally obtain from domestic farmers;
- dry milk, which we generally obtain from small domestic producers or import;
- bacteria cultures, which we generally import, although we have begun to develop our own cultures;
- sweeteners such as sugar and honey, which we import;
- flavorings, which we import;

- juice concentrate, which we import; and
- other ingredients such as fruits, preserves and stabilizers.

The prices of each of the foregoing raw materials are generally volatile.

Our purchasing policy is to increase the share of locally sourced food raw materials which satisfy our quality standards. We have focused on developing partnerships with established leaders in the field of local food production, including the leading Russian raw milk, dry milk, fruit and sugar producers. In each region where we require raw milk, we establish direct supply contracts with local individual farmers and collectives farms. Recently, we have begun entering into more purchasing arrangements with Russian suppliers of raw materials in the juice sector as well. For example, we are now purchasing from Russian suppliers larger volumes of juice and berry concentrates that meet our quality standards. We purchase substantially all of our raw materials directly and do not engage in a significant amount of barter transactions, and do not expect barter transactions to increase in the future.

We also purchase certain raw materials such as juice concentrate, bacteria cultures and flavorings from foreign manufacturers due to the unavailability of products of appropriate quality locally. We use quality raw materials, supplied by producers from approximately 25 countries such as Cargill (U.S.), Quatrale (Brazil), Jahncke (Germany), Givaudan (Germany), Hahn (Germany), Wild (Germany), and Firmenich (Switzerland). Our flagship "J-7" juice line, which is the best-selling juice brand in Russia, was created with consulting assistance from Cargill, the world's largest supplier of juice concentrates.

"Milk Rivers" program. We have strengthened our position in the dairy market by developing our own network of raw materials suppliers, in significant part through investments that support agricultural producers. Since 1995, our investment in these programs has totaled approximately $11.6 million.

In the summer of 1999, we formalized these programs under our "Milk Rivers" program, through which we provide local dairies with trade loans, feed, and leased equipment. In selecting the dairies which participate in this program, we have chosen only those that seek to increase the quality of their products and, despite existing difficulties, raise the productivity of their herds.

Under the Milk Rivers program, we have rented to 100 dairies located in the Moscow region advanced Swedish milking and refrigeration equipment for periods from three to eight years. The lease receivables are offset with milk supplies based on a predetermined schedule during the lease term. In some contracts the offset milk price is fixed in U.S. dollars or euro in a range which approximates average cash prices for milk at the inception of the lease, while in other contracts the price is determined based upon prevailing market price. The lease payments are denominated in U.S. dollars, euro and rubles. Equipment leased out to farms includes milking and refrigeration equipment for accelerated milk freezing and the temporary storage of milk at farms, and mangers and other technical devices that increase the productivity of farms. The type of equipment provided depends on the needs of each particular farm.

We plan to expand the scope of this program to include all regions of Russia and other CIS countries where we produce our dairy products. So far, this program has also commenced in the Krasnodarskiy region in Russia, where we have invested $1.3 million.

Other initiatives. A key factor for enhancing milk productivity of a herd and increasing milk quality is the availability of a good feed base. This particular problem has been one of the most important in recent years and arose because of harvesting problems deriving from a lack of modern harvesting machinery. For this reason, the second stage of the Milk Rivers program has entailed providing a number of participating agricultural enterprises with new feed-harvesting machines. Doppstadt, a German company, has become our partner in this project.

We believe that providing dairies with wholesome, well-balanced compound animal feed is essential for increasing the productivity of dairy herds, especially in the winter. A program for doing this has been running since October 1999 at Gerkules (Klin) and AO Lukhovitsky Milling Plant. For this purpose, in 2000 we purchased grain and supplied approximately 20,000 tons of wholesome compound feed to dairies in the Moscow region and adjacent regions. In 2001, we purchased grain and supplied approximately 36,200 tons of wholesome compound feed to dairies. As with the Milk Rivers program, payment for the feed is made with milk supplies. The offset milk price is in a range which approximates average cash prices for milk.

Seasonality

The demand for our dairy products is significantly higher during the winter months, when Russian raw milk production is at its lowest. Conversely, during the summer months we generally experience depressed demand for dairy products, while raw milk production is at its peak. We intend either to commence or to expand the production of dry milk at all our production facilities for use in production during the winter months. The demand for our juice products traditionally peaks during April through May and in December. We believe that the high demand during April through May is related to the public's heightened desire for vitamin-rich food and drink products during the transition from Winter to Spring, and that the high demand in December is related to increased juice consumption during the holidays.

The demand for both dairy and juice products in southern Russia rises in the summer due to an increase in the number of tourists. To meet this seasonal increase in demand in southern Russia, we have expanded to double the capacity at our plants located in Timashevsk and Kiev.

Packaging

Our principal packaging raw materials include materials needed for packaging our dairy and juice products, consisting mainly of composed material, polymeric material, and foil. Our principal supplier of composed material for the production of milk and juice carton containers is Tetra Pak, the world leader in manufacturing equipment and materials for aseptic packaging of liquid food products. As a major Russian consumer of Tetra Pak products, we have annual contracts with Tetra Pak, which supplies us from its Russian plants as well as from European plants. Our arrangement with Tetra Pak includes first priority in the receipt of packaging materials in the event that Russian demand exceeds Tetra Pak's supply capabilities.

We have established similar relationships with companies such as SIG Combibloc, GEA Finnah, Senaplast, APV, Solvay and Huhtamaki Van Leer. As part of our strategy to increase locally produced raw materials, we are developing relationships with Russian manufacturers of packaging materials, in particular with companies such as Lintekhnoresurs and Soyuz.

Trademarks and Patents

We have registered brand names and trademarks throughout Russia, in certain other CIS countries and in other countries. As of April 2, 2002, we had successfully registered 60 trademarks in Russia and 30 trademarks abroad. The trademark application for one of our products, Chudo-Yagoda, was rejected in Armenia, which intend to contest. In addition, we also had 126 pending trademark applications in Russia and 32 pending trademark applications abroad. The brand names listed under "—Our products and brands—Dairy products and brands" and "—Our products and brands—Juice products and brands," which we have registered in Russia, are material to us. We also own several licenses, patents and proprietary recipes, know-how and technologies related to our products and processes.

Insurance

We have limited coverage for our production facilities, and no coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents. As we have very limited insurance coverage, to the extent that we experience losses, we intend to cover theses losses out of working capital. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We do not carry the types of insurance coverage customary for a business of our size and nature, and a significant occurrence could result in substantial property loss and inability to rebuild in a timely manner or at all, causing significant harm to our operations and profitability."

Regulation

Production, sale and distribution of foods and beverages in the Russian Federation is regulated by general civil legislation and by special legislation that includes quality standards and various safety and sanitary rules.

Production and Sale of Food and Beverages

Government Entities Involved

Aside from federal executive bodies and their structural subdivisions that have authority over general issues, such as defense, internal affairs, security, border service, justice, tax enforcement and rail transport, there are a large number of government agencies directly involved in regulating and supervising quality and safety of food in the Russian Federation.

The Ministry of Health (including the Federal State Sanitary Epidemiological Supervisory Service, or Gossanepidnadzor, and the Chief State Sanitary Doctor) and the State Committee on Standardization and Metrology set obligatory sanitary and quality standards for food production and food products. Other government agencies involved are the State Veterinary Service and the State Inspectorate for Trade, Quality of Goods, and Protection of Consumers' Rights.

Gossanepidnadzor monitors the sanitary conditions of production sites, as well as storage and sale conditions at wholesale and retail outlets and businesses catering to the public.

The State Veterinary Service supervises sanitary safety of raw food materials used in production of food and beverages.

The State Inspectorate for Trade, Quality of Goods, and Protection of Consumers' Rights monitors quality and safety of food products at production sites and retail outlets and carries out inspections of producers and sellers.

Applicable Food and Health Legislation

Russian legislation regulating quality and safety of food and beverages includes the following acts:

- The Law on Quality and Safety of Food Products establishes a general framework for ensuring that food products and materials used in their production conform to certain quality, safety and sanitary requirements and provides for registration and certification of food products once they do so. It also establishes general requirements for the manufacturing, packaging, storage, transportation, and sale of food and beverages, and for the destruction of poor-quality and unsafe products.

- The Federal Law on the Sanitary-Epidemological Well-Being of People requires food and beverages and technologies used in their production to meet certain sanitary and health requirements and to have no harmful effects. Products that do not conform to sanitary rules and represent a danger to consumers must be withdrawn immediately from production or sale. As a result, the fulfillment of sanitary requirements is an obligatory condition for production, import and sale of food and beverage products in the Russian Federation.

- The Governmental Regulation on State Supervision and Monitoring of Quality and Safety of Food Products identifies the government agencies that are responsible for supervising and monitoring the quality and safety of food products.

- The Regulation for the Conduct of Sanitary-Epidemiological Expertise of Products adopted by the Ministry of Health establishes procedures for sanitary-epidemiological expertise of products. Government bodies that monitor sanitary and health issues conduct sanitary-epidemiological expertise of samples of each product and issue a conclusion as to whether such product satisfies the health requirements. Products that have not undergone a hygienic evaluation may not be produced, shipped, used, sold or certified.

- The Government Regulation on State Registration of New Food Products, Materials and Goods, which will become effective as of January 1, 2003, provides for obligatory state registration of certain food products, including mineral water, baby food and dairy products enriched with vitamins and/or other microelements. Food producers intending to develop and offer a new food product to the public will be required to file an application for the product's state registration and incorporation into the State Register of Permitted Food Products. Such applications will be reviewed by the Ministry of Health (or Ministry of Agriculture in the case of animal products) within 40 days of their filing.

- A number of other regulations and state standards also apply to food products. For example, special sanitary requirements for the storage, production, labeling, transportation and sale of food and beverages are established by state standards, sanitary rules and norms, hygienic norms and other documents and manuals.

Registration Requirements

Certain food and beverage products (such as children's dairy products, milk products enriched by vitamins or other microelements, additives to food, and food products manufactured using technologies that have never been applied in the Russian Federation) must be registered with the Russian government if they are either manufactured in Russia or imported into Russia for the first time. The regulation makes it illegal to manufacture, import or circulate products that are subject to state registration but have not been registered.

The product registration process includes:

- An expert evaluation of documents provided by the manufacturer or supplier of the product describing the product, its safety and evidencing its conformity with applicable rules;

- An expert evaluation of the results of toxicological, hygienic, veterinary and other types of tests performed on the product and, with respect to products manufactured in Russia, an examination of the manufacturing conditions;

- Registration of the product, its manufacturer and supplier into the State Register of Food Products maintained by the Ministry of Health;

- Issuance of a certificate permitting the product to be manufactured, imported or circulated in the Russian Federation; and

- Product registration requires the involvement of the Ministry of Health, Gossanepidnadzor, and, when necessary, the Ministry of Agriculture.

Certification

The Law on Certification of Products and Services sets forth certification requirements in the Russian Federation. Product certification is a procedure whereby an agency authorized by the government confirms that a product complies with certain standards and requirements. Milk products, juices and beverages are subject to mandatory certification. Conformity symbols evidencing that the manufacturer has undergone certification procedures should be printed on a product's packaging. Failure to mark a product with a conformity symbol carries possible civil and criminal sanctions.

Bulk Purchase of Raw Milk

A supplier of raw milk must provide a certificate stating that the farm from which it originated has passed a health inspection. Milk bought in bulk must also conform with requirements with respect to temperature, color, sedimentation, content of neutralizers, heavy metals, density, protein content, fat content, alcohol content and other characteristics.

Production and Transportation

Laboratory employees and technical specialists must verify that condition of equipment, implements, raw materials and packaging conform to sanitary requirements. For example, in the course of manufacturing, microbiological tests must be conducted of samples of raw materials, packaging and products. Products are tested for their content of chemical pollutants, toxins, medicinal and hormonal preparations, radionuclides and pathogenic microorganisms. They are also tested to identify their content of bacteria, yeast and molds, and to determine their sterility and the effectiveness of the pasteurization process. Products are also examined to determine the amounts of certain nutrients they contain, including protein, fat, vitamins, and carbohydrates. In addition, the cleanliness of the factory, storage conditions and employees must be monitored.

Milk products, juices and beverages must be transported in specially equipped vehicles, for which sanitary registration documents must have been issued.

Packaging Material and Labeling Requirements

Manufacturers and suppliers of all types of packaging materials used in the production of dairy and juice products must provide certificates of conformity and hygienic certificates for packaging materials, as well as certain technical documentation. This technical documentation must contain information showing that the packaging materials are made from materials and components authorized for contact with the food products and that such packaging materials meet quality and safety standards.

The Law on Protection of Consumers' Rights determines the scope and format of the information that should be made available to consumers. The packaging of finished products must display or contain the following information: the name of the product, information regarding its certification, conditions of use, contraindications, preservatives and food additives, net mass, volume, quantity of the product, ingredients, nutritive value, conditions of storage, shelf life, name and location of the manufacturer and other information. The law also authorizes a wide range of government and public agencies to monitor producers' compliance with the requirements of the law and imposes sanctions and penalties if such requirements are not met.

Special Requirements for Children's Dairy Products

Dairy products for children are subject to some additional requirements. For example, the procedures for monitoring raw materials and ingredients used in manufacturing, technological processes, and sanitary conditions of production are stricter for children's dairy products than for other dairy products. Laboratory analyses and tests must be conducted for a broader list of microbiological indicators. Packaging materials for children's dairy products must be certified for use with children's products. Children's dairy products are also subject to special labeling requirements. For example, packaging of children's dairy products must bear information on the purpose and conditions of use of such products.

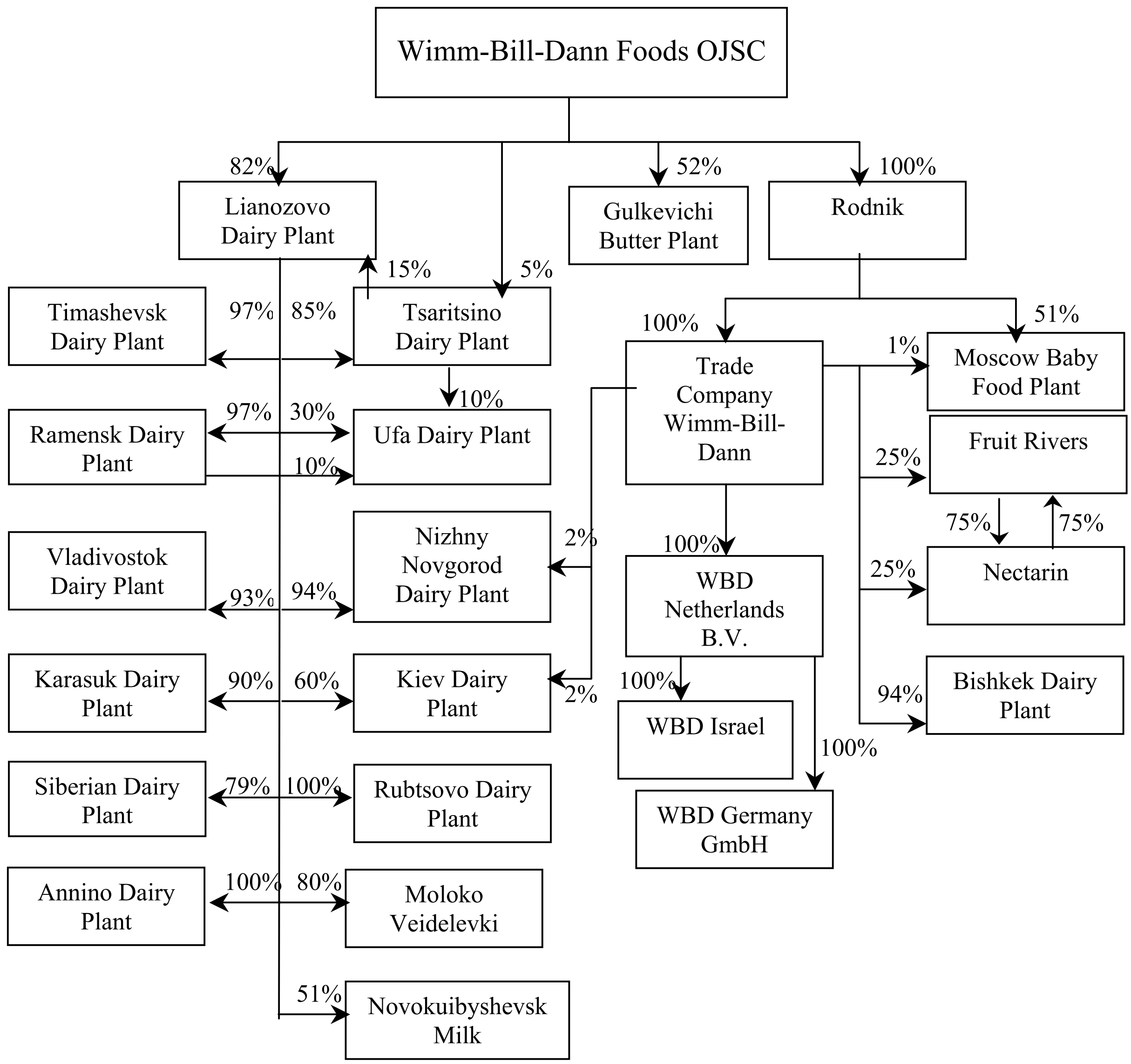
Competition and Pricing

The Russian Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity supervises competition conditions. The Russian Law on Competition and Restriction of

Antimonopoly Activity on Commodity Markets prohibits the abuse of a dominant position to limit competition. Our subsidiary Moscow Baby Food Plant is included in the register of entities that has more than 35% of the market for milk products for babies in Moscow and the Moscow region and according to the provisions of law holds a dominant position. A dominant position does not impose additional reporting or other requirements on us; however, because of our dominant position, the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity monitors our activities.

C. Organizational Structure

The following chart sets forth the current corporate structure of our holding company and our primary operating subsidiaries, as well as our percentage ownership of the common stock of each subsidiary as of May 28, 2002:



Our annual shareholders' meeting, held May 31, 2002, approved our subscription for newly-issued shares of a number of our subsidiaries. If consummated, such subscriptions would increase our ownership interest in the Siberian Dairy Plant from 78.9% to 98.9%, the Nizhny Novgorod Dairy Plant from 95.4% to 97.44%, the Tsaritsino Dairy Plant from 98.5% to 98.9%, the Lianozovo Dairy Plant from 97.0% to 97.5%, the Timashevsk Dairy Plant from 97.2% to 99.2%, and the Vladivostok Dairy Plant from 93.3% to 99.8%, as well as in several other of our subsidiaries. However, our subscription for these newly-issued shares is subject to certain conditions, including registration of such shares with the Federal Commission on Securities Markets, and we can give no assurance that theses transactions will be completed

D. Property, Plant and Equipment

Production facilities

We currently manufacture our products at 17 production facilities, including four in Moscow, seven in Central Russia outside of Moscow, four in Asian Russia and two in other CIS countries. We have made substantial investments to maintain and enhance quality, lower costs and increase productivity. Our main production plants are capable of managing the production of a diverse and relatively rapidly changing product range, enabling us to adapt quickly to sales volatility changes in consumer demand on a seasonal basis or otherwise. Capacity utilization at most of our plants is at approximately 80%, with the exception of our recently acquired plants, such as the Kiev Dairy Plant, the Bishkek Dairy Plant, Nizhny Novgorod Dairy Plant and the Ufa Dairy Plant, where we have started extensive modernization and cost cutting programs which result in the temporary reduction of utilization rates.

We also review our production headcount with the aim to enhance productivity increases. Sales per employee, calculated on the basis of our total headcount, which is a common measure of productivity used in the food industry, increased from $70,000 per employee in 1999 to $72,000 dollars per employee in 2000, and decreased to $60,000 per employee in 2001. This decrease was caused by the high number of production employees at less automated regional plants acquired by our company in 2001.

The following table contains data regarding our production facilities. It should be noted that raw milk throughput capacity and production output are not identical measures, as different dairy products require different amounts of raw milk for their production. Product output of a plant therefore depends on the types of products being produced there.

			Production in 2000 (thousand tons)		Production in 2001 (thousand tons)	
	Year of Acquisition[(1)]	Year Built	Dairy	Juice	Dairy	Juice
Moscow and Moscow region						
Lianozovo Dairy Plant	1995	1989	402.3	127.7	438.6	165.7
Tsaritsino Dairy Plant.............	1996	1975	100.3	74.1	123.3	82
Moscow Baby Food Plant.......	1996	1992	36.2	0.0	39.1	0.0
Ramenski Dairy Plant	1997	1982	3.8	43.6	2.5	48.9
Central Russia (excluding Moscow)						
Nizhny Novgorod Dairy Plant	1998	1984	31.8	0.0	33.1	2.0
Timashevsk Dairy Plant..........	2000	1990	54.2	0.0	62.5	8.8
Ufa Dairy Plant.......................	2001	1971	40.1	0.0	44.1	0.0
Dairy Anninskoye Moloko	2001	1978	-	-	2.6	-

	Year of Acquisition[1]	Year Built	Production in 2000 (thousand tons) Dairy	Production in 2000 (thousand tons) Juice	Production in 2001 (thousand tons) Dairy	Production in 2001 (thousand tons) Juice
Asian Russia						
Siberian Dairy Plant	1998	1961	42.2	1.7	58.9	8.0
Karasuk Dairy Plant	1999	1952	3.6	0.0	4.9	0.0
Vladivostok Dairy Plant	1998	1947	9.9	0.0	12.8	0.6
Rubtsovsk Dairy Plant	2001		0.0	0.0	1.0	0.0
Other CIS countries						
Kiev Dairy Plant	2001	1973	13.8	0.0	20.8	0.0
Bishkek Dairy Plant	2000	1990	6.0	0.0	8.9	0.0
Total			744.2[2]	247.1	853.1	316.0

Notes:

(1) "Acquisition" means the purchase of more than 50% of the issued share capital. Only plants acquired by us as of December 31, 2001 are included in this table.

(2) Excluding the plants acquired during 2000 and 2001, this total would be 630,100 tons.

At December 31, 2000 and 2001, certain of our assets served as collateral for loans from Sberbank, Rosdorbank, the Moscow City Government and others, including:

- Inventory in the amounts of $4.3 million and $30.1 million, respectively;
- Property, plant and equipment with a net book value of $35.2 million and $83.2 million, respectively; and
- Common outstanding shares of KMMZ with the cost of $4.0 million.

Item 5 Operating and Financial Review and Prospects

A. Operating Results

The following discussion of our financial condition and results of continuing operations, except where otherwise indicated, should be read in conjunction with (a) our Consolidated and Combined Financial Statements and the related notes as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001, which have been audited by the independent public accounting firm of Arthur Andersen and appear elsewhere in this Form, and (b) the risk factors relating to the Russian Federation beginning on page 21. Our Consolidated and Combined Financial Statements have been prepared in accordance with the accounting principles generally accepted in the United States ("U.S. GAAP"). Other than as described in this document, no significant change has occurred since December 31, 2001.

Basis of Presentation of Financial Results

We maintain our records and prepare our statutory financial statements in accordance with Russian accounting principles and tax legislation. The financial statements presented in this document have been prepared from Russian accounting records for presentation in accordance with U.S. GAAP. These financial statements and results differ from the financial statements issued for statutory purposes in Russia in that they reflect adjustments not recorded in our Russian books, which are required to present the financial position, results of operations and cash flows in accordance with U.S. GAAP.

We report to the Russian tax authorities in rubles, and our accounting records are maintained in that currency. The financial statements in this document have been prepared in accordance with U.S. GAAP and are stated in U.S. dollars. Accordingly, transactions and balances not already measured in U.S. dollars, mainly rubles, have been translated into U.S. dollars in accordance with the relevant provision of the Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" as applied to entities in highly inflationary economies. Under SFAS No. 52, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction date. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange gains and losses arising from remeasurement of monetary assets and liabilities that are not denominated in U.S. dollars are credited or charged to the statement of operations.

Exchange Rates and Inflation

As discussed in more detail below, the combined impact of exchange rate movements and inflation on our results of operations and cash flows is complex.

The Russian economy has been characterized by high levels of inflation and an unstable currency. In the period immediately prior to August 17, 1998, the Central Bank of Russia sought to maintain the value of the ruble against the U.S. dollar at a level between 5.25 and 7.15 rubles per U.S. dollar. On August 17, 1998, due to the burden of short-term debt and the reduction in the Central Bank of Russia's reserves, the Russian Government and the Central Bank withdrew their support for the falling ruble. In addition, the Russian government defaulted on certain of its short-term ruble denominated debt obligations. Subsequently, Russia experienced a severe economic crisis, which was characterized by sharply reduced economic activity, illiquidity, highly volatile foreign currency exchange and interest rates, an unstable stock market, high inflation and a decline in the population's purchasing power.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the Central Bank of Russia. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing herein.

	Rubles per U.S. dollar			
	High	Low	Average(1)	Period End
Year ended December 31,				
1997	5.96	5.56	5.80	5.96
1998	20.99	5.96	10.12	20.65
1999	27.00	20.65	24.67	27.00
2000	28.87	26.90	28.13	28.16
2001	30.30	28.16	29.22	30.14

Note:
(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per U.S. dollar	
	High	Low
November 2001	29.93	29.68
December 2001	30.30	29.90
January 2002	30.69	30.14
February 2002	30.93	30.68
March 2002	31.15	30.94
April 2002	31.19	31.15
May 2002	30.31	31.20

On June 15, 2002 the exchange rate between the ruble and the U.S. dollar was approximately 31.40 rubles per $1.00.

The following table shows the rates of inflation in Russia for the years indicated:

	Inflation rate(1)
Year ended December 31,	
1997	11.4%
1998	84.4%
1999	36.5%
2000	20.2%
2001	18.6%

Note:
(1) Source: The Russian State Committee on Statistics.

We prepare our Consolidated and Combined Financial Statements using a stable currency, the U.S. dollar, as the majority of our operations are in hyperinflationary economies, mainly in Russia. Our local currency is pre-dominantly the Russian ruble and as a result our local financial statements are prepared in rubles. The translation (remeasurement) of our domestic currency denominated financial statements into U.S. dollars has been performed in accordance with the provisions of SFAS No. 52, "Foreign Currency Translation" as they relate to hyperinflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars.

Our results of operations are affected by the relationship between the rate of inflation and the rate of devaluation of the ruble against the U.S. dollar (i.e., by the real appreciation or depreciation of the ruble against the U.S. dollar). As shown in the following table, there is no direct relationship between these two rates, and in 1999, 2000 and 2001 the ruble appreciated in real terms against the U.S. dollar (by way of contrast, the ruble depreciated in real terms in 1998):

	1999	2000	2001
Inflation(1)	36.5%	20.2%	18.6%
Devaluation of the ruble relative to the U.S. dollar in nominal terms(2)	30.8%	4.3%	7.0%

Notes:
(1) Source: The Russian State Committee on Statistics.
(2) Computed using the official exchange rate published by the Central Bank of Russia.

Although it is not practicable to provide reasonably quantifiable information in respect of all income statement captions, the following tables show how the real appreciation of the ruble against the U.S. dollar positively affected our reported net sales for the years ended December 31, 1999, 2000 and 2001.

	1999	2000	% Increase
Net sales (in U.S.$ thousand) as reported in our consolidated and combined income statement	$357,678	$465,411	30.1
Indexed ruble sales(1)	11.6 billion	14.4 billion	24.1

	2000	2001	% Increase
Net sales (in U.S.$ thousand) as reported in our consolidated and combined income statement	$465,411	$674,616	45.0
Indexed ruble sales(1)	17.1 billion	20.7 billion	21.1

Note:
(1) Ruble sales multiplied by the relevant inflation rate to ensure ruble revenues for both years are at constant rubles as of December 31, 2000 and as of December 31, 2001, respectively.

Consequently, our revenues, as adjusted for inflation, increased by 24.1% and 21.1% compared with increases of 30.1% and 45.0%, after translation into U.S. dollars, in the year ended December 31, 2000 and 2001, respectively.

A significant part of our costs and expenditures, as well as liabilities, are either denominated in or tightly linked to the U.S. dollar. These include salaries, capital expenditures and borrowings as well as costs of packaging materials, juice concentrates and certain other raw materials. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in ruble terms. If we cannot increase our ruble selling prices in line with ruble devaluation due to competitive pressures, our margins will suffer. Other things being equal, it is easier for us to maintain our margins when the ruble is appreciating in real terms against the U.S. dollar. See also "Item 4. Information on Our Company—B. Business Overview—Market trends and competition." Additionally, if the ruble declines and prices cannot keep pace, we could have difficulty covering our U.S. dollar-denominated costs or repaying our U.S. dollar-denominated indebtedness.

The decline in the value of the ruble against the U.S. dollar also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment since their basis for tax purposes is denominated in rubles at the time of the investment or acquisition. Any increased tax liability would increase our total expenses.

Our ruble denominated monetary assets and liabilities are also affected by changes in the value of the ruble against the U.S. dollar. Generally, as the value of the ruble declines, a net ruble monetary liability position results in currency remeasurement gains and a net ruble monetary asset position results in currency remeasurement losses. At December 31, 2000 and 2001, we had a ruble-denominated net monetary liability position of $30.6 million and $70.4 million, respectively. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk" for a presentation of our ruble denominated monetary assets and liabilities at December 31, 2000 and 2001. During the years ended December 31, 2000 and 2001, we had $1.1 million and $2.5 million, respectively, of currency remeasurement gains which were reflected in our consolidated and combined statement of operations.

See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Certain of our costs, such as salaries, are also sensitive to rises in the general price level in Russia. In the future, due to competitive pressures, we may not be able to raise the prices for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase our costs and decrease our operating margins.

Results of Continuing Operations

The following table summarizes our results of operations for the years ended December 31, 1999, 2000 and 2001:

	1999 (in thousands)	**%**(1)	**2000** (in thousands)	**%**(1)	**2001** (in thousands)	**%**(1)
Sales	$ 357,678	100.0	$ 465,411	100.0	$ 674,616	100.0
Cost of sales	(293,676)	82.1	(349,077)	75.0	(492,990)	73.1
Selling and distribution expenses	(22,378)	6.3	(34,138)	7.3	(62,213)	9.2
General and administrative expenses	(29,266)	8.2	(43,025)	9.2	(54,461)	8.1

	1999 (in thousands)	%(1)	2000 (in thousands)	%(1)	2001 (in thousands)	%(1)
Other operating expenses	(3,117)	0.9	(1,241)	0.3	(4,498)	0.7
Financial Income and expenses, net......	(270)	0.1	(5,664)	1.2	(10,581)	1.6
Provision for income taxes......	(2,446)	0.7	(9,568)	2.1	(14,166)	2.1
Minority interest	(583)	0.2	(1,453)	0.3	(3,962)	0.6
Income from continuing operations..........	$ 5,942	1.7	$ 21,245	4.6	$ 31,745	4.7

Note:
(1) Computed in relation to sales of the respective year.

Highlights for the Year Ended December 31, 2001

- Sales in 2001 increased by 45.0% over 2000 from $465.4 million to $674.6 million;
- Gross margin percentage increased from 25.0% in 2000 to 26.9% in 2001;
- Net income increased from $21.2 million in 2000 to $31.7 million in 2001;
- Our acquisitions of property, plant and equipment in 2001 increased by 126.8% over 2000 and amounted to $57.7 million;
- We spent $8.9 million on the acquisition of subsidiaries, including acquisitions of new subsidiaries and acquisitions of additional stakes in several of our existing subsidiaries.

Key Performance Data by Operating Segments

	Sales (in thousands)			Gross margin percentage		
	1999	2000	2001	1999	2000	2001
Dairy products	$ 256,706	$ 325,482	$ 485,452	16.4%	23.2%	22.7%
Juice products	100,972	139,929	189,164	22.3%	29.8%	37.9%
	$ 357,678	$ 465,411	$ 674,616	17.9%	25.0%	26.9%

Dairy Segment

In 2001, sales in our dairy segment increased by 49.1% over 2000, of which $97 million (29%) was attributable to a like-for-like increase and $63 million (20%) was attributable to new acquisitions. Although sales of the newly acquired companies had low gross margins, we largely maintained our dairy segment gross margin at 22.7%, which was only a 0.5% decrease from 2000.

In 2001, we produced our dairy products from fourteen factories located in Russia, Ukraine and Kyrgyzstan.

Juice Segment

In 2001, sales in our juice segment increased by 35.2% over 2000. This increase was achieved through organic growth, such as development of our distribution network and the establishment of nine regional branches in Russia and other countries of the CIS. Advertising and marketing initiatives independently undertaken by retailers also assisted this growth. The significant improvement in our juice segment gross margin of 8.1% in 2001 over 2000 resulted from new, high-margin products and a decrease in the cost of certain raw materials.

Acquisition of Property, Plant and Equipment

In 2001, we spent $57.7 million on the acquisition of property, plant and equipment, which represents 8.6% of our sales compared with 5.5% in 2000. See "Item 5. Operating and Financial Review and Prospects—B. Overall Liquidity and Capital Resources—Cash Flows" for more information on our investing activity in 2001.

Acquisitions of Subsidiaries

In 2001, we continued our expansion program, which mainly involves the acquisition of production units in various regions of Russia and the CIS. We believe that the establishment of large production units in the regions that are characterized by high population density and availability of abundant raw material resources is an efficient development strategy. See "Item 4. Information on Our Company—B. Business Overview—Business Strategy" for more information on our expansion strategy. In furtherance of this strategy, we acquired regional subsidiaries with low gross margins during 2001. Despite this, our overall profit increased significantly. We also acquired four dairies (KMMZ, Ufamolagroprom, Rubtsovsky Dairy and Dairy Anninskoye Moloko) during 2001. Rubtsovsky Dairy and Dairy Anninskoye Moloko are milk drying facilities which will supply our other dairy subsidiaries with dry milk, an important raw material during the Russian winter months. Ufamolagroprom is the biggest dairy in Bashtorkostan which produces a wide range of dairy products. KMMZ was the first dairy we acquired in the Ukraine under the strategy of expanding in the CIS market. See "—Acquisitions" for more information on our acquisitions.

Net Income

	1999	2000	2001	2000[1]	2001[2]
		(in thousands)			
Dairy segment net profit....	$ 8,153	$ 15,214	$ 26,824	86.6%	76.3%
Juice segment net profit.....	6,335	17,685	28,292	179.2%	60.0%
Combined net income........	14,488	32,899	55,116	127.1%	67.5%
Corporate and common expenses	(9,144)	(10,289)	(17,236)	12.5%	67.5%

	1999	2000	2001	2000(1)	2001(2)
		(in thousands)			
Income before minority interest and deferred taxes	5,344	22,610	37,880	323.1%	67.5%
Minority interest.................	(583)	(1,453)	(3,962)	-	-
Deferred taxes......................	1,181	88	(2,173)	-	-
Consolidated net income	$ 5,942	$ 21,245	$ 31,745	257.5%	49.4%

Notes:

(1) This column shows the increase in 2000 over 1999.

(2) This column shows the increase in 2001 over 2000.

(3) This line item includes expenses associated with our centrally managed corporate function and depreciation expenses on property, plant and equipment used in more than one segment.

Following our business development strategy we strengthened our centrally managed corporate function by establishing a holding company. This resulted in a 67.5% increase in our corporate and common expenses in 2001 over 2000. Such structure allows us to centrally manage our various business units across Russia and the CIS which, in turn, enables us to streamline and optimize our distribution function, pricing policy, brand management, logistics and TV advertising policy. Our corporate expenses comprise legal, audit and other consulting fees, head office maintenance expenses, Russian market research, charity and holding company personnel expenses.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Sales

Sales for the year ended December 31, 2001 increased by 45.0% over the year ended December 31, 2000, from $465.4 million to $674.6 million. The main reasons for our improved sales both in dairy and juice segment were increased advertising and marketing, as evidenced by an increase in advertising and marketing expenditure of 36.7% compared with 2000. Sales in each of our two segments were as follows:

	Year ended December 31,			
	2000	%	2001	%
	(in thousands)		(in thousands)	
Dairy products	$ 325,482	70	$ 485,452	72
Juice products	139,929	30	189,164	28
	$ 465,411	100	$ 674,616	100

In 2001, our dairy products sales increased by 49.1% over 2000, from $325.5 million to $485.5 million. This resulted from a 20.2% increase related to the acquisition of new subsidiaries, a 13.3% increase in volumes related to our existing business and a 15.6% increase in prices in U.S. dollar terms related to our existing business. Our average price on dairy products increased from $0.52 per kilogram in 2000 to $0.57 per kilogram in 2001. We sold approximately 630.2 thousand tons of dairy products in 2000 and 847.2 thousand tons of dairy products in 2001. The reasons for our improved sales of dairy products were changes in our products portfolio resulting in increased sales of products with higher prices such as "Wonder" dessert dairy products in the Moscow region and sterilized milk in other regions, a continued move to direct sales to retailers and an increase in the number of our merchandising personnel who work with the retailers to increase the visibility and awareness of our product range.

Juice segment sales increased by 35.2%, from $139.9 million in 2000 to $189.2 million in 2001. The reasons for our improved sales of juice products were numerous advertising and marketing campaigns, advertising and marketing initiatives independently undertaken by retailers, improvements in customer service and increased penetration into regional markets. Our juice products sales increase resulted from a 30.7% increase in volumes and a 3.5% increase in prices in U.S. dollar terms. In the juice segment, our average price in U.S. dollar terms increased from $0.56 per liter in 2000 to $0.58 in 2001. We sold approximately 250.3 million liters of juices in 2000 and 327.1 million liters of juices in 2001.

Sales per employee decreased from $72,000 in 2000 to $60,000 in 2001 as a result of our acquisitions during 2001 which have comparatively low sales per employee. We expect our sales per employee at these acquired businesses to improve as they are integrated into WBD. The average number of employees increased from 6,466 in 2000 to 11,335 in 2001.

See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry" for various risk factors which may affect our future sales.

Cost of Sales

Cost of sales primarily consists of expenses relating to raw materials (concentrates for juices, milk for dairy products and packaging for all sales), as they comprised 91.5% and 88.9% of our total cost of sales in 2000 and 2001, respectively. The table below shows these for both 2000 and 2001:

	Year ended December 31,			
	2000	%	2001	%
	(in thousands)		(in thousands)	
Raw materials	$ 319,344	91.5	$ 438,360	88.9
Personnel	11,939	3.4	20,103	4.1
Depreciation	7,993	2.3	10,609	2.2
Utilities	3,457	1.0	8,734	1.8
Goods for resale	2,021	0.6	10,273	2.1
Other	4,323	1.2	4,911	0.9
	$ 349,077	100.0	$ 492,990	100.0

Raw materials costs increased by 37.3% between 2001 and 2000 but decreased as a percentage of sales from 68.6% to 65.0%. The decrease in raw materials to sales ratio was due to the following reasons: 1) an increase in the share of value-added products in our products portfolio; 2) an increase in sales prices in U.S. dollar terms and 3) a slight decrease in dairy segment packaging prices and in juice segment concentrate prices in U.S. dollar terms as a result of our increased use of Russian suppliers and a reduction in custom duties. We have increased our selling prices in line with increases in the costs of our ruble-denominated raw materials. This, together with the fact that inflation has significantly exceeded the devaluation of the ruble versus the U.S. dollar during 2001, has resulted in a reduction of our raw material costs as a percentage of sales. In the dairy segment, approximately 60% of our raw material costs are ruble denominated and 40% are hard-currency denominated. In the juice segment, substantially all of our raw material costs are hard-currency denominated.

See also risk factors relating to purchases of our packaging and raw materials under "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry."

Personnel costs increased by 68.4% between 2001 and 2000 due to an overall rise in salaries in Russia and the hiring of personnel with higher qualifications than we previously employed. Further, the movement in personnel costs also reflects the increase in our sales, as salaries and wages are aligned with changes in production levels, as well as the acquisitions of new subsidiaries that are less efficient than our existing subsidiaries. The average number of production personnel has increased from 4,280 in 2000 to 7,162 in 2001. Our payroll cost per employee remained stable at approximately $2,800 in 2000 and in 2001.

Depreciation increased by 32.7%, reflecting the additional capital expenditure in 2000 and 2001.

Utility costs increased by 152.6% as a result of rises in electricity and gas tariffs, a temporary switch to state-provided water at Lianozovo Dairy ("LMK") due to reconstruction at its own water well facilities and the installation and use of more energy-intensive production equipment.

Goods for resale include various dairy products, such as cheese, which increased significantly in 2001 compared with 2000. As we did not produce cheese in significant volumes during 2001, we purchased cheese from independent cheese producers and sold these cheese products along with our other dairy products in order to satisfy our customers' desires for more extensive dairy product lines.

Gross Margin

Our gross margin for 2001 showed an improvement on 2000, increasing from 25.0% in 2000 to 26.9% in 2001. We largely maintained our dairy segment gross margin at 22.7% in 2001 as compared to 2000 with only a 0.5% reduction over 2000 despite the acquisition of several new subsidiaries with low gross margins. The increase in our juice segment gross margin from 29.8% to 37.9% resulted from (1) an introduction of new products with higher gross margins; (2) a slight decrease in raw material prices in U.S. dollar terms; and (3) a significant decrease in custom duties for certain concentrates. We raised selling prices in line with ruble inflation; therefore, our juice segment gross margin also improved in 2001 as a result of a higher inflation rate in 2001 in comparison with depreciation rate of the ruble relative to U.S. dollar and significant portion of hard-currency-denominated juice production expenses.

Selling and Distribution Expenses

Selling and distribution expenses increased by 82.2% between 2000 and 2001. As a percentage of sales, selling and distribution expenses increased from 7.3% in 2000 to 9.2% in 2001. The composition of such expenses was as follows:

	Year ended December 31,	
	2000	2001
	(in thousands)	
Advertising and marketing	$ 14,305	$ 19,562
Personnel	8,982	15,978
Transportation	6,743	17,144
Warehouse	2,088	2,408
Other	2,020	7,121
	$ 34,138	$ 62,213

Advertising and marketing expenses increased by 36.7% as we continued our policy of increasing our market share and as we introduced new products into the market. Advertising and marketing expenses in the dairy segment increased by 45.5% and in the juice segment by 24.6%. Advertising and marketing expenses increased more in the dairy segment due to increasing competition in the Russian dairy sector. Advertising and marketing expenses also increased in connection with the promotion of "Ginger Up", a new brand of dairy and juice products for children for which we spent $1.1 million in 2001. The increase in advertising and marketing expenses of our juice segment resulted from more severe competition in the juice market in 2001 in comparison with 2000 and the expansion of advertising and marketing campaigns into regional markets. TV advertising expenses represented approximately 56.1% of our total advertising and marketing expenses. In 2001, we spent $5.4 million and $5.6 million on TV advertising in our dairy and juice segments, respectively. Advertising and marketing expenses as a percentage of sales were stable as compared to 2000 at approximately 3%.

Personnel costs increased by 77.9% in both the dairy segment and the juice segment. This was due to a rise in the number of people we employed as we reduced the number of independent distributors and moved to direct sales to retailers. The average number of employees in our selling and distribution department has increased from 881 in 2000 to 1,996 in 2001. In 2001, the higher costs of personnel arising from the increase in our direct sales to retailers were offset in part by the higher selling prices we were able to charge retailers as compared to independent distributors, which had the effect of increasing our gross margin compared with 2000. We also expanded our distribution network to the regions, which resulted in more people being on the payroll. Our payroll cost per employee decreased by 21.6% from $10,200 in 2000 to $8,000 in 2001 due to acquisition of new subsidiaries with 865 sales and distribution personnel with comparatively low salary. Our personnel costs as a percentage of sales increased from 1.9% in 2000 to 2.4% in 2001.

Transportation costs, which primarily consist of external transportation costs, increased by 154.2%. Our transportation expenses as a percentage of sales increased from 1.4% in 2000 to 2.5% in 2001. This was primarily due to an increase in our juice-segment sales, especially in various regions of Russia. In contrast, transportation expenses in our milk segment have always been relatively low due to the closer location of customers to our production facilities caused by our milk products short shelf life, although there was an increase in these expenses during 2001 due to increased yogurt sales and an increase in intra-group sales with the objective of raising sales in our regional companies.

General and Administrative Expenses

General and administrative expenses increased by 26.6% in 2001 over 2000, but decreased from 9.2% in 2000 to 8.1% in 2001 as percentage in sales. The composition was as follows:

	Year ended December 31,	
	2000	2001
	(in thousands)	
Personnel	$ 14,756	$ 29,016
Taxes other than income tax	19,780	8,452
Security	1,244	2,210
Insurance	178	1,235
Depreciation	575	1,111
Audit, consulting and legal	1,222	2,170
Other	5,270	10,267
	$ 43,025	$ 54,461

Personnel expenses increased by 96.6% as a result of the increase of our payroll cost per employee, from $11,300 in 2000 to $13,300 in 2001, reflecting overall labor market conditions and the establishment of our holding company, Wimm-Bill-Dann Foods OJSC. The average number of our administration personnel increased from 1,305 in 2000 to 2,177 in 2001.

Taxes other than income tax include road users tax, social infrastructure and maintenance tax, which are taxes that are levied on our sales, and advertising tax, which is levied on our advertising expenses. The overall decrease in such taxes amounted to 57.3%, which reflects a decrease in the rates of certain taxes effective from January 1, 2001.

From January 1, 2001 the road users tax rate was reduced to 1.0% from 2.5%, and the social infrastructure and maintenance tax was abolished from its previous rate of 1.5%. In 2000 and 2001, the road users tax charge amounted to $11.6 million and $6.8 million, respectively, and the social infrastructure and maintenance tax charge were $6.9 million and $nil, respectively. Due to the increase in our advertising and marketing expenses, our advertising and other taxes charge increased from $1.2 million in 2000 to $1.7 million in 2001.

In 2001, we launched an insurance program for technological facilities and equipment at our plants, which caused our insurance expenses to increase from $0.2 million in 2000 to $1.2 million in 2001.

Operating Income

Operating income increased significantly to $60.5 million in 2001 from $37.9 million in 2000, representing an increase of 59.6%. Operating income as a percentage of sales improved from 8.1% in 2000 to 9.0% in 2001. In the dairy segment, our operating income increased from $29.5 million in 2000 to $44.2 million in 2001, representing an increase of 49.8%. In 2001, we made several acquisitions of new subsidiaries in the dairy segment; such acquisitions did not increase our operating income in 2001. In the juice segment our operating income increased from $18.7 million in 2000 to $33.5 million in 2001, representing an increase of 79.1% which resulted from new high-margin products and a decrease in the cost of certain raw materials.

Our operating income in 2000 and 2001 benefited from certain tax planning initiatives to reduce our operating taxes. These initiatives were subject to unsuccessful challenge by the Russian tax authorities in respect of the years ended December 31, 1997 and 1998 and may be subject to challenge in respect of later periods. If successful, any such challenge could result in significant financial losses. See Note 32 in "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001" for a quantification of the benefits we have obtained from these initiatives and our potential losses if the initiatives are successfully challenged. We will vigorously defend any claim that these initiatives are contrary to Russian tax law.

We intend to reduce, and are reducing, significantly these tax initiatives in 2002 following positive changes in tax legislation. We will seek to mitigate the adverse effect of the increase in operating taxes resulting from reduction of these initiatives by increases in selling prices in U.S. dollar terms to the extent the competition allows us to do so. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition" and "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001, respectively—Commitments and Contingencies."

Financial Income and Expenses

Financial income and expenses comprised the following:

	Year ended December 31,	
	2000	2001
	(in thousands)	
Interest and bank charges	$ 6,738	$ 13,236
Currency remeasurement gains	(1,116)	(2,483)
Other	42	(172)
	$ 5,664	$ 10,581

Interest and bank charges increased by 96.4% in 2001 over 2000. This resulted from an increase in our short- and long-term borrowings as of December 31, 2001 comparing with December 31, 2000 from $67.8 million to $122.0 million, respectively. In 2001, we made significant investments in property, plant and equipment and in the acquisition of new dairy subsidiaries which resulted in an increase in the need for debt financing. We believe that our credit worthiness increased as a result of our strengthened balance sheet in 2001, and that this factor led to a decrease in weighted average interest rates and reduced bank charges. Our currency remeasurement gains represent exchange gains and losses arising on re-translation of ruble- and euro-denominated monetary assets and liabilities into U.S. dollars. Currency measurement gains increased during 2001, which is a reflection of an increase in our net ruble- and euro-denominated monetary liability positions.

Provision for Income Taxes

Provision for income taxes increased from $9.6 million in 2000 to $14.2 million in 2001. These provisions comprise a current income tax charge of $9.7 million for 2000 and $12.0 million for 2001, and a deferred tax benefit of $0.1 million for 2000 and a charge of $2.2 million for 2001. Deferred tax benefits and charges arise on temporary differences between the basis of computing income under Russian accounting principles and U.S. GAAP. Provision for income taxes as a percentage of income before provision for income taxes and minority interest was 29.7% in 2000 and 28.4% in 2001. With effect from January 1, 2001 the income tax rate increased from 30% to 35%. We did not experience any significant adverse effects on our liquidity position as a result of the change in the income tax rate because of our positive operating cash flows and our ability to offset income tax liabilities with VAT receivable.

As a result of the adoption of Chapter 25 of the Second Part of the Tax Code and with effect from January 1, 2002, the income tax rate has been reduced from 35% to 24% and income tax benefits, being investment and social infrastructure maintenance credits and baby food products benefit, were abolished. We expect that in 2002 we will gain more from the reduction in the tax rate than we will lose from the abolishment of tax benefits and believe that our effective income tax rate will decrease in 2002.

In 2000 and 2001, we benefited from the small enterprise tax legislation, which was used in the companies operating in the juice segment. Under income tax legislation now in effect small enterprises involved in certain activities, such as food processing, are exempt from income taxes for the first two years of operations and, in the third and fourth years, income taxes are levied at a rate of 25% and 50% of the income tax rate, respectively. Had we not taken the advantage of the small enterprise tax benefit in 2000 and 2001, our income tax expense would have been higher by $6.0 million and $8.6 million, respectively. We intend to continue to structure our juice business to meet the technical requirements of the small enterprise tax legislation, to the extent it remains in effect. The income tax benefit for small enterprises has been abolished from January 1, 2002, except that the benefit will continue to be available to enterprises that were established before July 1, 2001. Starting from January 1, 2002 our juice production will be primarily concentrated in two small enterprises, Fruit Rivers and Nectarin, which were registered in March and April 2001, respectively. As a result, we will continue to benefit from the small enterprise tax legislation for the next several years in the manner described above. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—The elimination of a tax privilege from which we currently benefit would materially adversely affect our results of operations."

Minority Interest

The minority interests in the consolidated and combined statement of operations reflect the net income and losses of our subsidiaries that are attributable to the minority shareholders in those subsidiaries. In 2000 and 2001, net profits on continuing operations attributable to minority shareholders of our subsidiaries were $1.5 million and $4.0 million, respectively.

Prior to July 2001, the Moscow City Government owned 15% of the shares of LMK and Tsaritsino Dairy ("TsMK"). In May 2000, we signed share purchase agreements with the Moscow City Government for the purchase of 15% of the shares of LMK and TsMK. TsMK agreed to purchase 15% of LMK shares for $0.9 million and to invest $8.2 million of plant and equipment. LMK agreed to purchase 15% of TsMK shares for $0.2 million and to invest $5.5 million of plant and equipment. By December 31, 2000 the purchase consideration had been paid, and by May 31, 2001 all the investments had been made. However, due to statutory procedural reasons, the transfer of share ownership did not occur until July 2001. As a result, an advance of $1.1 million was recognized for the cash which had been paid at December 31, 2000, and the Moscow City Government's 15% ownership in LMK and TsMK were treated as minority interests until July 2001 on the basis that transfer of ownership had not yet occurred.

Net Income

Net income from continuing operations for 2000 was $21.2 million (4.6% of sales), compared with $31.7 million (4.7% of sales) for 2001. Our net income (before corporate and common expenses, deferred tax and minority interest) for the dairy segment was $15.2 million (4.7% of sales) in 2000 and $26.8 million (5.5% of sales) in 2001. Our net income (before corporate and common expenses, deferred tax and minority interest) in the juice segment was $17.7 million (12.6% of sales) in 2000 and $28.3 million (15.0% of sales) in 2001. Our common and corporate costs, including depreciation, legal, audit fees and other consulting fees, head office maintenance expenses, expenses on global marketing researches, charity, holding company personnel expenses, in 2000 and 2001 were $10.3 million and $17.2 million, respectively, which reflects the additional costs associated with the establishment and operation of WBD Foods OJSC.

Year ended December 31, 2000 compared to year ended December 31, 1999

Sales

Sales for 2000 increased by 30.1% over 1999, from $357.7 million to $465.4 million. Sales in each of our two segments were as follows:

	Year ended December 31,			
	1999	%	2000	%
	(in thousands)		(in thousands)	
Dairy products	$ 256,706	72	$ 325,482	70
Juice products	100,972	28	139,929	30
	$ 357,678	100	$ 465,411	100

Dairy products sales increased by 26.8%, from $256.7 million in 1999 to $325.5 million in 2000. This resulted from an 8.7% increase in prices in U.S. dollar terms and an 18.1% increase in volumes. Our average price in U.S. dollar terms for dairy products increased from $0.48 per kilogram in 1999 to $0.52 per kilogram in 2000. We sold approximately 533.6 thousand tons of dairy products in 1999 and 630.2 thousand tons of dairy products in 2000. Juice products sales increased by 38.6%, from $101.0 million in 1999 to $139.9 million in 2000. This resulted from a 5.6% increase in prices in U.S. dollar terms and a 33.0% increase in volumes. In the juice segment, our average price in U.S. dollar terms increased from $0.53 per liter in 1999 to $0.56 per liter in 2000. We sold approximately 190.7 million liters of juices in 1999 and 250.3 million liters of juices in 2000.

The main reasons for our improved sales were intensified advertising and marketing, as evidenced by an increase in advertising and marketing expenditure of 32.3% compared with 1999, and increased sales of products with higher prices such as "Wonder" dessert dairy products in the Moscow region and sterilized milk in other regions. Sales prices in 1999 were adversely affected by the 1998 economic crises in Russia. In the face of weakened demand in 1999, we elected to keep our prices constant in an inflationary environment, pushing our real prices down to a level that allowed us little more than to cover our operating costs, especially in the juice segment. The improved economic environment in 2000 allowed us to raise our prices in real terms, resulting in significantly improved operating margins, again especially in the juice segment. Sales prices were also positively affected in 2000 due to a reduction in the portion of our sales made to independent distributors in favor of direct sale to retailers; our sales prices to retailers are higher than those to independent distributors.

Juices generally showed a better performance than dairy products due to less competition for juices, especially in the regions of Russia outside of Moscow.

Sales per employee increased from $70,000, in 1999 to $72,000 in 2000, an increase of 3%. At the same time, the total average number of employees increased from 5,135 in 1999 to 6,466 in 2000.

See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry" for various risk factors which may affect our future sales.

Cost of Sales

Cost of sales primarily consists of expenditures for raw materials (concentrates for juices, milk for dairy products and packaging for all sales), as they comprised approximately 91% of our total cost of sales in both years. Our other costs of sales consist of depreciation, personnel costs, utilities and others. The table below shows these for both 2000 and 1999:

	Year ended December 31,	
	1999	2000
	(in thousands)	
Raw materials	$ 267,892	$ 319,344
Personnel	9,677	11,939

	Year ended December 31,	
	1999	2000
	(in thousands)	
Depreciation	6,767	7,993
Utilities	3,069	3,457
Other	6,271	6,344
	$ 293,676	$ 349,077

Raw materials costs increased by 19.2% between 2000 and 1999 but decreased as a percentage of sales from 74.9% to 68.6%. The reduction in raw materials costs as a percentage of sales resulted mainly from the increase in sales prices in U.S. dollar terms and a slight decrease in raw milk and juice concentrate prices in U.S. dollar terms. Packaging prices in U.S. dollar terms remained flat over this period. In the dairy segment, approximately 60% of our raw material costs are ruble denominated and 40% are hard currency denominated. In the juice segment, substantially all of our raw material costs are hard currency denominated.

See also risk factors relating to purchases of our packaging and raw materials under "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry."

Depreciation increased by 18.1%, reflecting the additional capital expenditure in 1999 and 2000.

Personnel costs increased by 23.4% between 2000 and 1999. The movement in personnel costs closely mirrors sales activity as salaries and wages are aligned with changes in production levels. The average number of production personnel increased from 3,448 employees in 1999 to 4,280 employees in 2000. Our payroll cost per employee remained stable at approximately of $2,800 in 1999 and 2000.

Gross Margin

Our gross margin for 2000 showed a substantial improvement on 1999, increasing from 17.9% in 1999 to 25.0% in 2000, as a result of our increased sales, especially of products with higher prices, a move to direct distribution to retailers where our prices are higher than those to independent distributors and a slight decrease in our raw material costs which account for 91% of our total costs of sales. In addition, our gross margin in 2000 returned to more normal levels as compared with 1999 which was adversely impacted by the Russian banking crisis of August 1998. Our gross margin in the dairy segment increased from 16.4% to 23.2% and in the juice segment from 22.3% to 29.8%.

Selling and Distribution Expenses

Selling and distribution expenses increased by 52.6% between 1999 and 2000. As a percentage of sales, selling and distribution expenses increased from 6.3% in 1999 to 7.3% in 2000. The composition of such expenses was as follows:

	Year ended December 31,	
	1999	2000
	(in thousands)	
Advertising and marketing	$ 10,814	$ 14,305
Personnel	5,038	8,982
Transportation	3,110	6,743
Warehouse	2,110	2,088
Other	1,306	2,020
	$ 22,378	$ 34,138

Advertising and marketing expenses increased by 32.3% as we continued our policy of increasing our market share and as we introduced new products into the market. Advertising and marketing expenses in the dairy segment increased by 18.3% and in the juice segment by 49.1%.

Advertising and marketing expenses as a percentage of sales remained flat at 3%.

Personnel costs increased by 78.3%, consisting of a 101.5% increase in the dairy segment and a 47.8% increase in the juice segment. This was due to a rise in the number of people we employed as we reduced the number of independent distributors and moved to direct sales to retailers. In 2000, the higher costs of personnel arising from the increase in our direct sales to retailers were offset in part by the higher selling prices we were able to charge retailers as compared to independent distributors, which had the effect of increasing our gross margin compared with 1999. We also expanded our distribution network to the regions, which resulted in more people being on the payroll. The average number of employees in our selling and distribution department have increased from 615 in 1999 to 881 in 2000. Our payroll cost per employee increased by 24.4% from $8,200 in 1999 to $10,200 in 2000. Our personnel costs as a percentage of sales increased from 1.4% in 1999 to 1.9% in 2000.

Transportation costs, which primarily consist of external transportation costs, increased by 116.8% as a result of a number of factors, including: the move to direct sales to retailers as explained above, the expansion into the regions, increased prices of fuel and a rise in railway tariffs. Our transportation expenses as a percentage of sales increased from 0.9% in 1999 to 1.4% in 2000.

General and Administrative Expenses

General and administrative expenses increased by 47.0%, and from 8.2% to 9.2% as a percentage of sales. The composition was as follows:

	Year ended December 31,	
	1999	2000
	(in thousands)	
Taxes other than income tax	$ 13,801	$ 19,780
Personnel	9,312	14,756
Audit, consulting and legal	681	1,222

	Year ended December 31, 1999	2000
	(in thousands)	
Depreciation	689	575
Other	4,783	6,692
	$ 29,266	$ 43,025

Taxes other than income tax includes road users tax and social infrastructure and maintenance tax, which are taxes that are levied on our sales. Road users tax is levied at 2.5% and social infrastructure and maintenance tax is levied at 1.5%. In 1999 and 2000 the road users tax amounted to $8.7 million and $11.6 million, respectively, and the social infrastructure and maintenance tax amounted to $4.5 million and $6.9 million, respectively. The overall increase in such taxes was 43.3%, which reflects the overall increase in our sales during the year and various tax planning initiatives in 1999 which were discontinued in 2000 in light of changes in tax legislation.

Personnel expenses increased by 58.5% as a result of the increase of our payroll cost per employee from $8,700 in 1999 to $11,300 in 2000 reflecting overall labor market conditions and the strengthening of our central management team. The average number of our administrative personnel have increased from 1,072 in 1999 to 1,305 employees in 2000.

Operating Income

Operating income increased significantly from $9.2 million in 1999 to $37.9 million in 2000. Operating income as a percentage of sales improved from 2.6% in 1999 to 8.1% in 2000. In the dairy segment, our operating income increased from $12.3 million in 1999 to $29.5 million in 2000 representing an increase of 139.8%. In the juice segment, our operating income increased from $6.1 million in 1999 to $18.7 million in 2000 representing an increase of 206.6%. In our juice segment, a significant contributing factor to the improvement in operating income in 2000 was a decrease of certain expenses as a percentage of our gross margin: advertising and marketing expenses—from 21.8% to 18.3%, selling and distribution personnel expenses—from 9.7% to 7.7%, warehouse expenses—from 9.4% to 5.0% and taxes other than income taxes from 16.6% to 14.8%.

Our operating income in 1999 and 2000 benefited from certain tax planning initiatives to reduce our operating taxes. These initiatives were subject to unsuccessful challenge by the Russian tax authorities in respect of the years ended December 31, 1997 and 1998 and may be subject to challenge in respect of later periods. If successful any such challenge could result in significant financial losses. See Note 32 in "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001" for a quantification of the benefits we have obtained from these initiatives and our potential losses if the initiatives are successfully challenged. We will vigorously defend any claim that these initiatives are contrary to Russian tax law.

We intend to reduce, and are reducing, these tax initiatives in 2002 following positive changes in tax legislation. We will seek to mitigate the adverse effect of the increase in operating taxes resulting from reduction of these initiatives by increases in selling prices in U.S. dollar terms to the extent the competition allows us to do so. See also “Item 3. Risk Factors—D. Risks Relating to Our Financial Condition.”

Financial Income and Expenses

Financial income and expense comprised the following:

	Year ended December 31, 1999	Year ended December 31, 2000
	(in thousands)	
Interest expense and bank charges	$ 4,113	$ 6,738
Currency remeasurement gains	(3,675)	(1,116)
Other	(168)	42
	$ 270	$ 5,664

Interest expense and bank charges increased by 63.8% in 2000 compared with 1999. This resulted from an increase in our short- and long-term borrowing facilities. However, during 2000 the weighted average interest rates decreased and bank charges were reduced by banks, which was a reflection of a general improvement in market conditions in Russia.

Currency remeasurement gains have reduced significantly during 2000, which is a reflection of a more stable ruble relative to the U.S. dollar during 2000.

Provision for Income Taxes

Provision for income taxes increased from $2.4 million in 1999 to $9.6 million in 2000. These provisions comprise a current income tax charge of $3.6 million for 1999 and $9.7 million for 2000, and deferred tax benefits of $1.2 million for 1999 and $0.1 million for 2000, which arise on temporary differences between the basis of computing income under Russian accounting principles and U.S. GAAP. Provision for income taxes as a percentage of income before provision for income taxes and minority interest was 27.3% in 1999 and 29.7% in 2000.

In 1999 and 2000 we benefited from the small enterprise tax legislation, described above, which was used in the companies operating in the juice segment. If we had not taken advantage of the small enterprise benefit in 1999 and 2000 our income tax expense would have increased by $4.3 million and $6 million, respectively. As discussed above, this benefit has been abolished, though it will continue to apply to our juice companies for several years.

Minority interest

In the year ended December 31, 1999 and 2000, net profits on continuing operations attributable to minority shareholders of our subsidiaries were $0.6 million and $1.5 million, respectively.

As described above, as of December 31, 2000 the Moscow City Government owned 15% of LMK and 15% of TsMK and these interests were treated as minority interests at December 31, 2000. If these minority interests had been eliminated prior to January 1, 2001, our net income for 2000 would have increased by approximately $0.7 million.

Net Income

Net income from continuing operations for the year ended December 31, 1999 was $5.9 million (1.7% of sales), compared with $21.2 million (4.6% of sales) for the year ended December 31, 2000. Our net income (before corporate and common expenses, deferred tax and minority interest) in the dairy segment was $8.2 million (3.2% of sales) in 1999 and $15.2 million (4.7% of sales) in 2000 and in the juice segment was $6.3 million (6.3% of sales) in 1999 and $17.7 million (12.6% of sales) in 2000. Our common and corporate costs, including depreciation, personnel expenses, business trips expenses and other general and administrative corporate expenses, in 1999 and 2000 were $9.1 million and $10.3 million, respectively.

B. Overall Liquidity and Capital Resources

The major sources of our liquidity over the years ended December 31, 1999, 2000 and 2001 have been cash generated by operating activities and a mixture of short- and long-term bank loans. Our current assets and current liabilities at December 31, 2001 were $179.8 million and $203.9 million, respectively, which resulted in an excess of current liabilities over current assets of $24.1 million. As of December 31, 2000, an excess of current liabilities over current assets amounted to $19.0 million.

Our short-term loans at December 31, 2000 and 2001 amounted to $56.6 million and $91.9 million, respectively. The relatively high short-term loans are a result of the banking market conditions in Russia where it is easier to attract such loans as compared to long-term loans. Our short-term loans have been used to finance organic growth and our growth by acquisition. In 2002, we used part of the initial public offering proceeds (approximately $44 million) for the retirement of our most expensive short-term and long-term loans, which improved our overall liquidity and capital position.

Debt

In 2001, we continued adhere to our core financing principals for all subsidiaries, with the aim of minimizing borrowing costs, with the following policies:

- negotiations with financial institutions with the purpose of obtaining lowest interest rates;
- reduction of exchange rate risk by diversification of our debt portfolio with different currencies' borrowings;
- diversification of our debt portfolio by using different types of borrowings such as loans, revolving and non-revolving lines of credit and bonds; and

- concentration of cashflows in a few major banks to attract beneficial interest rates and services fees.

During 2000 and 2001, we had no off-balance sheet financing arrangements.

Short-Term and Long-Term Loans

Bank loans are our major external source of liquidity. We do not expect any circumstances to affect our sources of liquidity.

Short-term and long-term loans as at December 31, 2001 amounted to $105.2 million, which represents a 55.2% increase over December 31, 2000. Our short-term loans as at December 31, 2000 and 2001 are summarized in the following table:

	Weighted average interest rate as at December 31, 2001	Year ended December 31, 2000	Year ended December 31, 2001
		(in thousands)	
Credit Lyonnais Rusbank	4.3%	$ 1,527	$ 654
Alfa Bank	13.0%	9,022	13,033
Vneshtorgbank	14.7%	-	9,481
Commerzbank	7.1%	108	3,000
Sberbank	18.1%	37,292	34,866
Rosdorbank	17.0%	1,420	6,470
Moscow City Government	8.3%	4,893	10,596
MDM Bank	20.0%	-	6,966
Citibank T/O	17.5%	541	2,986
Other	20.6%	1,771	3,876
		$ 56,574	$ 91,928

The above loans can be categorized in the following currencies:

	Year ended December 31, 2000	Year ended December 31, 2001
	(in thousands)	
U.S. dollars	$ 10,549	$ 22,136
Russian roubles	41,212	67,495
Euro	4,813	854
Other currencies	-	1,443
	$ 56,574	$ 91,928

Our long-term loans position as at December 31, 2000 and 2001 is summarized in the following table:

	Weighted average interest rate as at December 31, 2001	Year ended December 31, 2000	Year ended December 31, 2001
		(in thousands)	
Alfa Bank	13.2%	$ 3,980	$ 3,980
ING Bank (Eurasia)	4.4%	2,696	4,154
Raiffeisenbank	5.3%	-	1,105
Moscow Industrial Bank (“MIB”)	26.0%	2,384	1,121
Aval	27.0%	-	1,259
Other	8.4%	2,129	1,643
		$ 11,189	$ 13,262

The above loans can be categorized in the following currencies:

	Year ended December 31, 2000	Year ended December 31, 2001
	(in thousands)	
U.S. dollars	$ 4,752	$ 6,389
Russian rubles	2,583	1,636
Euro	3,854	3,978
Other currencies	-	1,259
	$ 11,189	$ 13,262

Our overall loan level increased by $37.4 million as of December 31, 2001 compared with December 31, 2000 as a result purchases of property, plant and equipment, increase in inventories and acquisition of subsidiaries. Our principal lenders are as follows:

SBERBANK—we had 21 short-term loans and lines of credit with Sberbank as of December 31, 2001 amounting to $34.9 million. These are primarily utilized for working capital purposes and the purchase of plant and equipment. Our relationship with Sberbank is excellent and, as a result, we believe that they will continue to support our needs as we continue our growth. The average interest rate on the ruble denominated loans and lines of credit is 18.1%. The borrowings are secured on property, plant and equipment and inventory.

ALFA BANK—we had one short-term and two long-term U.S. dollar denominated loans as of December 31, 2001, amounting to $12.0 million and $4.0 million, respectively. The average interest rates were 13.0% on short-term and 13.2% on long-term loans. The long-term loans are due for repayment in April 2002 and were required in order to buy a 60% shareholding in KMMZ. This acquisition was conditional on receiving Central Bank of Russia approval which we obtained in March 2001.

ROSDORBANK and VNESHTORGBANK—we started to diversify our loan portfolio and as a result started to work with several major Russian banks such as Vneshtorgbank and Rosbank. The Vneshtorgbank lines of credit, are both Russian rouble and U.S. dollar denominated ($4.0 million and $5.5 million respectively) and bear interest at 18.5% and 12.0%, respectively, and are utilized for working capital purposes. These borrowing are secured by plant and equipment and also guaranteed by LMK. The RosDorBank loans, amounting to $6.5 million, are ruble denominated and attract interest at 17.0%. These loans are utilized for working capital purposes and are secured by inventory.

MOSCOW CITY GOVERNMENT—we had 3 Moscow City Government ("MCG") loans amounting to $10.6 million as of December 31, 2001. As of December 31, 2000 we had 3 loans amounting to $4.9 million. These loans are provided by the MCG as we produce milk, which is regarded by the MCG as a vital product. As a result, these loans attract a beneficial interest rate of one third of the Central Bank of Russia's rate, which was 8.3% at December 31, 2001. These borrowings are seasonal as they are used to finance our production of dry milk during the period July to September each year.

Bonds

In November 2001, as part of the process of diversification of our debt portfolio, LMK issued ruble denominated bonds in the amount of $16.6 million with the maturity of three years. For the first year the interest rate was fixed at 22.75% which is subsequently adjusted depending upon market conditions and market rates of interest. These bonds are guaranteed by WBD Foods OJSC.

We have classified the bonds as short-term on the basis that the bond holders have a right to request redemption of such bonds at par from LMK in the period between October 10, 2002 and October 24, 2002. However, we believe that such redemption is unlikely and, following the end of this redemption period, the bonds will not be redeemable until October 2004.

See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Contractual Obligations

The table below summarizes our obligations and commitments to make future payments under long-term contracts, such as debt and lease agreements.

	Payment due periods				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
			(in thousands)		
Unconditional purchase obligations	$ 21,433	$ 7,076	$ 5,097	$ 4,167	$ 5,093
Other long-term obligations	22,104	4,118	9,061	7,529	1,396
Bonds	16,832	16,832	-	-	-
Long-term loans	13,262	8,099	4,108	1,055	-

Contractual Obligations	Payment due periods Total	Less than 1 year	1-3 years (in thousands)	4-5 years	After 5 years
Capital lease obligations	95	95	-	-	-
Total contractual cash obligations ..	$ 73,726	$ 36,220	$ 18,266	$ 12,751	$ 6,489

We do not have any contingent commitments as at December 31, 2001.

Working Capital

We believe that our working capital is sufficient for our present requirements.

We believe that tight control over working capital and liquidity is the main task of financial management which can influence our cost of capital. In order to analyze changes in our working capital, we consider separately our dairy and juice segments, as they have different minimum levels of finished goods and raw materials that are required, as well as different suppliers whose credit terms vary. These two segments also have different levels of competition, which affects the type of credit terms afforded by us to our customers.

In the dairy market, our customers' credit days are shorter due to the short shelf life of finished goods, while the credit days we are allotted by our packaging materials and raw materials additives' suppliers days are higher as a result of the generally favorable credit terms we receive from our suppliers. As a result, our dairy subsidiaries can decrease the cost of financing through usage of suppliers' credit terms. Further, we accumulate a high quality and relatively cheap dry milk inventory in the summer in order to mitigate the risk of milk supply reduction in the winter months when the Russian milk market is volatile and unpredictable. As a result, we have high levels of dry milk inventory from the beginning of the autumn season. We benefit from our dry milk policy, as we finance dry milk purchases through low interest rate governmental loans and use dry milk in the winter season when such prices increase.

Competition in the Russian juice market and longer delivery periods for regional customers result in relatively higher customers' credit days in the juice segment. Our strategy on closer location of juice production capacities to the final customers results in additional profits but leads to an increase in working capital. The following seasonal factors lead to an increase in juice segment working capital at the end of each fiscal year: 1) increase in sales in December with the respective increase in accounts receivable; 2) build up of packaging materials and concentrate inventory before Christmas and New Year holidays; and 3) build up of juice finished goods inventory before New Year holidays and school holidays.

Inventory of both dairy and juice segment primarily consisted of raw materials and finished goods. Turnover of inventory in days as of December 31, 2001 amounted to 53 days, as compared to 55 days as of December 31, 2000. Relatively high number of days in inventory is a reflection of our wide product range. We believe inventory is well controlled and appropriately managed as reflected by our minimal need for reserves for damaged or out-of-date product.

Receivables as of December 31, 2000 and 2001 consisted of trade receivables amounting to $10.0 million and $25.3 million, respectively, and VAT receivable amounting to $20.9 million and $34.9 million, respectively. Debtors` days of trade receivables averaged between 6-8 days during both 2000 and 2001. This results from our very tight control over customer credit. We believe that our history of bad debts is good, as can be seen by our allowance for bad debts of around 3% of debtors and the fact that we only wrote-off immaterial bad debts during 2000 and 2001.

VAT (value added tax) receivable is due from the Russian government because we only charge customers 10% VAT on our major dairy products which we remit to the Russian government whereas the VAT that we are charged from our suppliers is 20% which we can claim back from the Government. Under existing tax legislation we are able to offset this VAT against income taxes and other taxes payable, which for the years ended December 31, 2000 and 2001 amounted to $1.7 million and $4.8 million, respectively. During the years ended December 31, 2000 and 2001 we received $1.1 million and $3.9 million, respectively. We continue to work with the tax authorities in order to try and expedite repayments.

Our main liabilities as of December 31, 2000 and 2001 are trade accounts payable and short and long-term loans which together account for 49.7% and 65.1% of our total liabilities, respectively.

Trade accounts payable increased by 25.6% from $42.9 million to $53.9 million as of December 31, 2000 and 2001, respectively. This is a reflection of a general increase in raw material purchases in line with our expanded activities, offset by the earlier settlement of the related payables. Trade payables averaged 39 days for 2000 and 36 days for 2001.

Government Grants

In 1999 Moscow Baby Foods Plant ("ZDMP") received capital grants from the Russian and Moscow Governments amounting to approximately $18.6 million. These grants were received under the Moscow Government's child support program and were provided to ZDMP to enable it to purchase property, plant and equipment for the baby foods production. These grants are amortized to the income statement over the useful life of the related property, plant and equipment. We do not expect to receive any other significant grants in the foreseeable future.

Cash Flows

A summary of our cash flows from continuing operations is as follows:

	Year ended December 31,		
	1999	2000	2001
		(in thousands)	
Cash flows from operating activities	$ 6,696	$ 22,011	$ 19,009
Cash paid for acquisition of subsidiaries	(650)	(4,361)	(8,855)
Purchase of property, plant and equipment	(32,650)	(25,423)	(57,653)
Cash provided by financing activities	31,897	24,213	50,749

In 2001, net cash provided by operating activities was $19.0 million, a decrease of 13.6% over 2000. This decrease is primarily attributable to increases in our inventories ($30.3 million), trade accounts receivable ($14.1 million), as well as taxes receivable ($13.9 million). These changes were due to the overall increase in our business as well as the acquisition of regional subsidiaries.

In 2001 we spent $8.9 million on the acquisition of subsidiaries, which was two times more than in 2000. The acquisitions were made in different regions of Russia and in Ukraine and included acquisitions of new subsidiaries and acquisitions of additional shares in several of our existing subsidiaries.

Following our expansion strategy, we continued to purchase property, plant and equipment during 2001 in order to increase production facilities in our new and existing subsidiaries. In this connection, we acquired 2.3 times more equipment in 2001 than in 2000 in anticipation of the expected positive development of the macroeconomic situation in Russia. In 2001, our capital investments in property, plant and equipment amounted to $57.7 million and comprised the following:

- 48% - packaging and processing equipment for sterilized milk and for juices;
- 20% - milk and fermented milk production facilities;
- 12% - infrastructure and warehouse facilities and equipment;
- 9% - equipment for production of yogurts, desserts and curd products, glazed curd products;
- 2% - bottle packaging equipment in Moscow region;
- 2% - finished goods delivery lorries;
- 3% - leasing equipment for milk suppliers;
- 2% - equipment for cash-and-carry stores;
- 2% - mineral water production facilities.

In 2001, our main sources of financing for acquisitions of subsidiaries and acquisitions of property, plant and equipment were short- and long-term debt which increased by $54.3 million as at December 31, 2001 over December 31, 2000. Net cash provided by financing activities during 2001 was $50.7 million, which primarily reflects the increase in short and long-term loans and $16.8 million of bonds issued in November 2001.

In 2000, net cash provided by operating activities was $22.0 million, which is primarily attributable to increases in net income and trade accounts payable offset by a rise in inventories and accounts receivable. Net cash used in investing activities was $35.6 million, which primarily related to investments in property, plant and equipment, payments relating to acquisitions and dividends to shareholders. Net cash provided by financing activities was $24.2 million which primarily reflects the increase in short and long-term debt.

During 1999, net cash provided by operating activities was $6.7 million which related to net income, an increase in trade accounts payable and an increase in taxes payable. This was offset to some extent by increases in inventory and accounts receivable. Net cash used in investing activities was $42.5 million, which primarily related to purchases of property, plant and equipment, acquisition of capital leases and payments for equity investments. Net cash provided by financing activities of $31.9 million related to government grants received of $18.6 million and an increase in short-term loans of $18.8 million.

Currently, our cash transfers between subsidiaries mainly comprise working capital advances and financial aid to the subsidiaries by LMK which have no specific legal or economic restrictions. Dividend distributions are only restricted to the amounts of undistributed profit determined under Russian statutory accounting requirements on a calendar year basis. Such dividends would be paid on a yearly basis depending on the recommendation of the Board of Directors and the decision of the Shareholders' Meeting.

See also Note 23 in our "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001."

Acquisitions

In April 2001, at the same time as WBD Foods LLC acquired an interest in LMK and Rodnik in exchange for shares of participation in WBD Foods LLC (see "—Reorganization Under Common Control" below), an additional share of participation in WBD Foods LLC was exchanged for additional shares in TsMK. That exchange has been accounted for as the acquisition of a minority interest in 2001. See "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 for the years ended December 31, 1999, 2000 and 2001."

In July 2001, WBD received the ownership for 15% of shares of LMK and TsMK acquired from the Moscow City Government. TsMK purchased 15% of LMK's shares for $0.9 million and invested $8.2 million of plant and equipment. LMK purchased 15% of TsMK's shares for $0.2 million and invested $5.5 million of plant and equipment. This agreement resulted from the Moscow City Government's desire to sell its remaining interests in these entities and the importance of these entities to our business. This acquisition has been accounted for as the acquisition of minority interests in 2001. The fair value of net assets acquired in excess of purchase price resulting from this allocation of $13.1 million was recorded as a reduction against property, plant and equipment resulting in total property, plant and equipment acquired of approximately $1.1 million. See "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 for the years ended December 31, 1999, 2000 and 2001."

During 1999, 2000 and 2001 we made a number of other acquisitions for a total consideration of $0.7 million, $4.4 million and $8.9 million, respectively. The reason for these acquisitions was to strengthen our operational presence in the regions of Russia, Ukraine and in Kyrgyzstan. Below is a description of the major acquisitions, both acquisitions of minority interests and acquisitions of new companies, involving cash:

Investee	Direct ownership interest acquired, %	Cash cost of investment
		(in thousands)
1999		
Other	Various	650
Total 1999[(1)]		$ 650

Investee	Direct ownership interest acquired, %	Cash cost of investment
		(in thousands)
2000		
Bishkeksut	67	453
Molochny Kombinat ("MK")—minority interest	57	3,775
Other	Various	133
Total 2000[(2)]		$ 4,361
2001		
Kiev Dairy No. 3 ("KMMZ")	60	3,986
Ufamolagroprom	50	5,500
TsMK—minority interest[(3)]	10	1,156
Anninskoye Moloko	100	1,050
Rubtsovsky Dairy	100	1,040
LMK—minority interest	15	900
TsMK—minority interest	15	190
TsMK—minority interest	5	500
Other		690
Total 2001[(3)]		$ 15,012

Notes:

(1) This total excludes our investments in Albumin, MK and various others which were accounted for at cost. Total cash paid for acquisitions of such investments was $4.5 million.

(2) This total excludes the acquisition of the Breweries which were treated as discontinued operations.

(3) This amount represents a partial cash payment in respect of 9.6% of the outstanding common stock of TsMK. The remaining consideration was a share of participation in WBD Foods LLC, which was subsequently exchanged for 448,000 shares of WBD Foods OJSC at a value of $18 per share, the estimated market value per share of WBD Foods OJSC in April 2001. See also "Consolidated and Combined Financial Statements as of December 31, 1999, 2000 and 2001 and for the years then ended."

In September 2000, Wimm-Bill-Dann Netherlands B.V. acquired 67% of the outstanding common stock of Bishkek Dairy, Bishkeksut, an open joint stock company in Kyrgyzstan. The cost of this acquisition was $0.5 million which was paid in cash. Bishkeksut is a leading milk production company in Kyrgyzstan. The acquisition resulted in an excess of net assets acquired over the consideration paid of $3 million which has been deducted from property, plant and equipment. The results of Bishkeksut have been consolidated from September 2000. Bishkeksut's revenues for the year ended December 31, 2001 approximated $4.4 million and the net loss was $0.6 million.

In December 2000, Lianozovo Dairy acquired a further 57% of the outstanding common stock of MK (40% was acquired in September 1999 and accounted for at cost), a major milk producing plant in Timashevsk, Krasnodar region of Russia. The cost of acquisition was $6.5 million which was paid in cash ($2.7 million was paid in 1999, $3.8 million—in 2000). The acquisition resulted in an excess of net assets acquired over the consideration paid of $1.8 million which was deducted from property, plant and equipment. The results of MK have been consolidated from December 2000. MK's sales for the year ended December 31, 2001 amounted to $41.8 million and net profit amounted to $2.1 million.

In March 2001, Lianozovo Dairy acquired 60% of the outstanding common stock of KMMZ, one of the major dairy plants in Ukraine. The cost of acquisition was $4.0 million, which was paid in April 2000 to Alfa Bank in its role as agent broker for the acquisition of KMMZ. The ownership of these shares was not transferred to LMK until March 2001, as it was conditional on receiving Central Bank of Russia approval. The acquisition resulted in an excess of the consideration paid over net assets acquired of $1.1 million which was recognized as positive goodwill and amortized over 15 years. The results of KMMZ have been consolidated from March 2001. KMMZ's sales for the nine months ended December 31, 2001 amounted to approximately $10.3 million and net loss amounted to $1.8 million.

In March 2001, Lianozovo Dairy acquired 50.1% of the outstanding common stock of Ufamolagroprom, a leading dairy in Bashtorkostan. The cost of acquisition was $5.5 million, which was paid in cash. The acquisition resulted in an excess of the consideration paid over net assets acquired of $2.3 million which was recognized as positive goodwill and amortized over 15 years. The results of Ufamolagroprom have been consolidated from January 2001. Ufamolagroprom's sales for the year ended December 31, 2001 amounted to $28.5 million and achieved a breakeven result from operations.

In June 2001 we also acquired a 100% interest in Rubtsovsky Dairy and in August 2001, we acquired a 100% interest in Dairy Anninskoye Moloko. The cost of both acquisitions was $1 million each. The impact of these acquisitions was not material to our consolidated and combined financial statements for 1999, 2000 and 2001.

Reorganization under Common Control

On April 16, 2001, Wimm-Bill-Dann Foods LLC ("WBD Foods LLC") was formed by a group of individuals who owned shares in Lianozovo Dairy ("LMK"), PAG Rodnik ("Rodnik") and various juice production companies. As of April 16, 2001, LMK and Rodnik held shares, directly and indirectly, in the following subsidiaries and associates:

	Consolidated interests, %
• TsMK	49
• Moscow Baby Food Plant	52
• Siberian Dairy	64
• Nizhny Novgorod Dairy	78
• Vladivostok Dairy	76
• Ramenski Dairy	87
• Karasuk Dairy	73
• Molochny Kombinat	79
• Bishkeksut	67
• Moloko	27
• Lianozovo-Samara	81
• Trade Company Wimm-Bill-Dann	100
• Wimm-Bill-Dann Priobretatel	100
• Wimm-Bill-Dann Netherlands B.V.	100
• Podmoskovnoe Moloko	95

•	Ramenskie Soki	100
•	Ramenskoye Moloko	75
•	Wimm-Bill-Dann (Israel) Limited	100
•	Wimm-Bill-Dann Agro	69
•	Nevsky Dairy Trade House	81
•	KMMZ	49
•	Ufamolagroprom	38
•	Fruit Rivers	100
•	Nectarin	100

The shares of LMK and Rodnik were then exchanged for ownership interests in WBD Foods LLC and, as a result, WBD Foods LLC became the majority shareholder of LMK and Rodnik.

In October and December 2001, and subsequent to this exchange, the juice production companies were transferred to Fruit Rivers LLC. These juice production companies were:

- Grande-V;
- Fructola;
- Lianozovsky;
- Vitafruct;
- Food Production; and
- EO ISSA.

Prior to the foregoing transactions, the companies referred to above were under the common control of a group of shareholders ("the Control Group") who together were the majority shareholders in each such company and who were contractually bound by a written agreement entered into in 1997 to vote their shares in the same way. The Control Group has controlled the above companies throughout the periods presented and will continue to do so in the future. See also risk factor relating to control group of stockholders whose interest may conflict with those of the holders of ADSs under "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry."

Accordingly, the acquisition by WBD Foods LLC of the above named companies represents a reorganization under common control, and has been accounted for in a manner akin to a pooling. The financial statements have been prepared on the basis that WBD Foods LLC existed for all of the periods presented and was the majority shareholder of the underlying entities named above for all the periods presented.

On May 31, 2001, WBD Foods LLC was restructured into an open joint stock company and named WBD Foods OJSC.

See also "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001."

Discontinued Operations

Our discontinued operations consist of banking and brewery businesses, which we disposed of in April 2001. We have no intention whatsoever of causing WBD Foods OJSC to re-enter either the banking or the brewery businesses.

During 1997, LMK acquired approximately 82% of the outstanding shares of a banking company, Expobank, for a total amount approximating $6.0 million. During 1998, LMK made an additional investment of $6.9 million in Expobank in connection with a capital contribution by major shareholders of Expobank. LMK's acquisition and investment in Expobank was made in order to ensure access to funding for our operations.

In the period from August to November 2000, LMK acquired ownership interests in certain breweries, including Brewery Volga/Volga-Invest, Pivindustria Primoria ("PiP") and Moskvoretzky Brewery (collectively referred to as the Breweries). The aggregate purchase price of these investments was approximately $7.5 million.

Name of Brewery	Date of Acquisition	Acquisition Price (in thousands)
Brewery Volga/Volga-Invest	October 2000	$ 1,127
Pivindustria Primoria	August-November 2000	6,213
Moskvoretzky Brewery	August-November 2000	152
		$ 7,492

Acquisitions of shares were made at various dates in the periods shown above. All the breweries were acquired by LMK.

On December 8, 2000 the Board of Directors of LMK passed a decision to form a new company, Central European Brewing Company LLC ("Tsepko"), to act as a holding company for all beer companies. LMK was the only founder of Tsepko. All shares of the breweries were transferred to Tsepko as a contribution to its charter capital. As a result of the formation of the holding company, the results of the brewery operations, as detailed below, have been combined.

On December 28, 2000, the Board of Directors of LMK passed a general resolution to alienate LMK's interest in Expobank and the Breweries. This decision was based on the desire to focus on our core dairy and juice businesses and to divest our ancillary operations before our initial public offering. At this time, there was no determination as to the timing or method of such disposition.

On March 19, 2001, at the annual shareholders' meeting of LMK, a decision was made that any alienation of Expobank and the Breweries should be completed through a distribution of shares to certain of the controlling group of shareholders who would simultaneously transfer their ownership interests in TsMK to LMK. The exchange was completed in April 2001 and has been recorded in WBD's condensed consolidated and combined financial statements as a distribution to shareholders at carrying value at that date.

Further, on July 21, 2001, Expobank was sold to MDM Bank, an unrelated party, and any future transactions between MDM bank or Expobank and WBD Foods OJSC will be on an arms length basis. There were no conditions or undertakings in the sale and purchase agreement with MDM Bank relating to future transactions or the terms of any lending transactions to WBD Foods OJSC. The disposition of Expobank will not impact on our ability to borrow funds in the future. We have ongoing banking relationship with various Russian banks including Sberbank and Alfa Bank.

Net income from discontinued operations was $0.3 million and $0.2 million relating to Expobank for 2000 and for the period from January 1, 2001 to April 25, 2001, respectively. Net loss from discontinued operations was $0.2 million and $0.1 million relating to the Breweries for the three months ended December 31, 2000 and for the period from January 1, 2001 to April 25, 2001, respectively. Interest income and non-interest income of Expobank were $7.8 million in 2000 and $2.1 million in the period from January 1, 2001 to April 25, 2001, respectively. Net combined sales of the Breweries for the three months ended December 31, 2000 and for the period from January 1, 2001 to April 25, 2001 were $4.9 million and $5.2 million, respectively.

Net (loss) income from discontinued operations was $(0.2 million) and $0.3 million relating to Expobank for the years ended December 31, 1999 and 2000, respectively. Net loss from discontinued operations was $0.2 million relating to the Breweries for the three months ended December 31, 2000. Interest income and non-interest income of Expobank were $5.8 million in 1999 and $7.8 million in 2000. Net combined sales of the Breweries for the three months ended December 31, 2000 were $4.9 million.

Current assets and long-term assets from discontinued operations as at December 31, 1999 were $23.0 million and $7.7 million, respectively, which wholly related to Expobank. As at December 31, 2000 current assets and long-term assets from discontinued operations increased to $63.6 million and $15.5 million, respectively, and related primarily to Expobank and, to a lesser extent, the Breweries. As at April 25, 2001, current assets and long-term assets from discontinued operations were $58.2 million and $18.9 million, respectively. Current liabilities and long-term liabilities from discontinued operations as at December 31, 1999 were $23.4 million and $5.5 million, respectively, which wholly related to Expobank. As at December 31, 2000 current liabilities and long-term liabilities from discontinued operations increased to $62.7 million and $5.1 million, respectively, and related primarily to Expobank and, to a lesser extent, the Breweries. As at April 25, 2001, current liabilities and long-term liabilities from discontinued operations were $63.5 million and $4.9 million, respectively.

See also “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” and “Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001.”

Effect of Transactions with Related and Certain Other Parties

Trinity-Negus

During 2000 and 2001 we engaged in material transactions with Trinity-Negus ("Trinity"), a private security company, which is owned by members of the control group of shareholders. Trinity provided the companies of the Group with security services in 2000 and 2001 amounting to approximately $1.7 million and $2.2 million, respectively. In 2001, we selected Trinity in a tender as they worked with our subsidiaries in the last several years and offered a very competitive price. At the end of 2001 we decided to establish a security services subsidiary and, therefore, discontinued our work with Trinity commencing from 2002.

Wimm-Bill-Dann Trans

During 2000 and 2001 we received transportation services from Wimm-Bill-Dann Trans ("WBD Trans"), a closed joint stock company, which is the Group's investee, amounting to approximately $1.9 million and $5.3 million, respectively. WBD-Trans receives a discount from suppliers as a result of its significant activity in the railway sector and provides us with services at prices lower than the market. On a quarterly basis, we monitor transportation market prices to ensure that WBD Trans' prices are still competitive. We do not have any outstanding purchase commitments in respect of WBD-Trans but we consider that our current transactions provide us with the opportunity to decrease our transportation costs.

Avto-40

During 2000 and 2001 we received transportation services from Avto-40, a closed joint stock company, which is controlled by members of the control group of shareholders, amounting to approximately $0.2 million and $0.1 million, respectively.

Adonis

During 2001, LMK paid an advance for construction of an administrative building amounting to $4.1 million to Adonis, a limited liability company, which is controlled by members of the control group of shareholders. We selected Adonis for construction of our new administrative building in the center of Moscow as Adonis has a unique Moscow City Government license on reconstruction and construction work in the historical center of Moscow. Total planned cost of construction is approximately $8.0 million and Adonis was approved based on a selective comparative analysis of the cost of similar work on the Moscow market. Currently, we own an office building constructed by Adonis in 1997-1998 in the center of Moscow and, therefore, believe that the current transaction with Adonis is fairly priced and risk free.

Poultry Factory Gorki-2

During 2001 the Group purchased milk from Poultry Factory Gorki-2, a closed joint stock company, which is controlled by members of the control group of shareholders, amounting to approximately $0.6 million.

The Breweries

As at December 31, 2001 we have loans receivable from Brewery Volga, Volga-Invest and Moskvoretzky Brewery ("the Breweries") amounting to $0.7 million. These ruble denominated loans were provided in early 2001 and before the alienation of the Breweries and are included in other current receivables. In 2002, the maturity of these loans was extended to June 30, 2002 and interest was charged at 18% per annum which approximates market rate.

Environmental and Product Liability

We are subject to the requirements of environmental laws and regulations. While we devote resources designed to maintain compliance with these requirements, there can be no assurance that we operate at all times in complete compliance with all such requirements. We could be subject to potentially significant fines and penalties for any noncompliance that may occur. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect to incur material capital expenditures for environmental controls in 2001. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties which would adversely affect our financial results and could reduce our ability to maintain or increase production."

We also face an inherent business risk of exposure to product liability claims in the event that consumption of our products results in personal illness or death, and there can be no assurance that we will not experience any material product liability losses in the future. In addition, if any of the products we have produced are determined to be unsuitable for consumption, we may be required to participate in a recall involving such products. We have not had any significant historical experience of such claims and are unaware of any potential unasserted claims. See "Item 3. Key Information—D. Risks Factors—Risks Relating to Our Business and Industry—Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties which would adversely affect our financial results and could reduce our ability to maintain or increase production."

Critical Accounting Policies and Estimates

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001" included elsewhere herein.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts reflects reserves for customers receivables to reduce receivables to amounts expected to be collected. We use significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, we consider factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While we believe our processes effectively address our exposure for doubtful accounts, changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in our Consolidated and Combined Financial Statements.

Inventory Valuation

We review our inventory balances to determine if inventories can be sold at amounts equal to or greater than their carrying amounts. The review includes identification of slow moving inventories, obsolete inventories and discontinued products or lines of products. The identification process includes historical performance of the inventory, current operational plans for the inventory, as well as industry and customer specific trends. If our actual results differ from our expectations with respect to the selling of our inventories at amounts equal to or greater then their carrying amounts, we would be required to adjust our inventories accordingly.

Depreciation periods for property, plant and equipment

Depreciation periods of property, plant and equipment are based on estimated useful lives of related assets. The adoption of depreciation periods requires judgment in determining appropriate estimated useful lives over which the related assets will be utilized. In estimating useful lives, we consider factors such as our historical experience and the industry, manufacturers' estimates, anticipated use and our maintenance policies. As these factors change, management estimates may change and we could be required to reassess depreciation periods for property, plant and equipment.

Recent Accounting Pronouncements

As of January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. Among other things, the statement requires that an entity recognize all derivative instruments on the balance sheet as either assets or liabilities, and to account for those instruments at fair value. The adoption of this new accounting standard did not have a material impact on our consolidated balance sheet or results of operations.

As of January 1, 2002, we will adopt SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 142 requires goodwill to be tested for impairment and no longer allows amortization of goodwill. We do not expect the impact of this new accounting standard on our consolidated balance sheet or results of operations to be material.

As of January 1, 2002, we will adopt SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We currently have no plans to dispose of any operations and accordingly, do not anticipate that adoption of SFAS No. 144 will have a material impact on our consolidated balance sheet or results of operations.

As of January 1, 2003, we will adopt SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligations be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We have not yet assessed the potential impact of the adoption of SFAS No. 143.

At the January 17-18, 2001 meeting, the Emerging Issues Task Force (EITF) reached a consensus on EITF 00-22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." EITF 00-22 requires that any cash rebate or refund obligations are reflected as a reduction of revenue based on a systematic and rational allocation of the costs of honoring such rebates or refunds. This EITF consensus will not have an effect on our accounting as we currently treat these costs in a manner consistent with the requirements of EITF 00-22.

At the April 18-19, 2001 meeting, the EITF reached a consensus on EITF 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." The general consensus is that such consideration should be recorded as reduction of revenue unless specific criteria are met that identify a specific separable benefit from the consideration paid. EITF 00-25 addresses costs such as slotting fees, cooperative advertising and buydown programs, and must be applied for periods beginning after December 15, 2001. We currently do not anticipate that adoption of EITF 00-25 will have a material impact on our results of operations or our financial position.

As of May 15, 2002 we will adopt SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 also rescinds Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." SFAS No. 145 amends Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 related to the rescission of Statement 4 applied in fiscal years beginning after May 15, 2002. The provisions of SFAS No. 145 related to Statement 13 will be effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of SFAS No. 145 shall be effective for financial statements issued on or after May 15, 2002, with early application encouraged. We have not yet assessed the potential impact of the adoption of SFAS No. 145.

Management Stock Option Plans

We are considering to establish a stock option plan for selected officers and key employees under which they will participate in a stock option plan. No decision has yet been reached regarding the structure of such a plan.

C. Research and Development, Patents and Licenses, Etc.

We invest significant financial and human resources in new product development, focusing on long-term strategic development projects that are expected to create innovative products and technologies. Our new product development department, which averaged 22 employees by December 31, 2001 and is located at the Lianozovo Dairy Plant in Moscow, often cooperates with third parties such as Russian research institutions, specialized research firms and suppliers. In 1999 and 2000, we spent approximately $1.4 million to establish a department focused on new product development. During the year 2001, we spent approximately $1.3 million on new product development, which was comprised of $0.5 million spent on new product development and $0.8 million on the development of our own research center. For a more detailed discussion of new product development see "Item 4. Information on Our Company—B. Business Overview—New Product Development."

D. Trend Information

We plan to continue our strategy of expanding to the regions. Under this strategy, we plan to invest more than $90 million in acquiring companies in Russia and the CIS in the period from 2002 to 2006.

In 2001, we spent $57.7 million on capital expenditures. Our estimated capital expenditures for the period from 2002 to 2006 are set forth in the following table. These are our estimated capital expenditures and are subject to change depending upon changes in such factors as the economy, business environment and competition.

	Year Ended December 31,			
	2002	2003	2004-2006	Total
	(in millions)			
Milk equipment:				
Central Russia	$ 30.9	$ 32.0	$ 92.0	$ 154.9
Siberia	10.4	13.2	41.4	65.0
CIS	8.2	8.6	30.0	46.8
Juice equipment	21.5	25.7	86.4	133.6

	Year Ended December 31, 2002	2003	2004-2006	Total
	(in millions)			
Administrative building	3.7	-	-	3.7
Water bottling facilities and equipment	3.1	5.7	20.0	28.8
	$ 77.8	$ 85.2	$ 269.8	$ 432.8

The above planned capital expenditures and acquisitions will be financed by cash inflows from operating activities and external sources of finance, including proceeds from our initial public offering.

One of the major trends that can affect the profitability of our juice segment in 2002 is the expected increase in juice concentrate prices as currently quoted by commodity exchanges.

We expect that the tendency towards an increase in our selling and distribution expenses per ton of products in both our dairy and juice segments will continue in 2002.

For a further discussion of factors that impacted our results of operations and financial condition in 2001, see "Item 4. Information on Our Company" and "Item 5. Operating and Financial Review and Prospects."

Except as discussed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands and commitments or events that are reasonably likely to have a material effect on our sales, income from operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions. See also "Item 3. Key Information—Risk Factors" and "Cautionary Statements Regarding Forward-Looking Statements."

Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

Our directors and executive officers, and their respective ages and positions as of May 31, 2002, were as follows:

Name	Year of Birth	Position
Directors and Executive Officers:		
David Iakobachvili[(1)]	1957	Chairman
Sergei A. Plastinin[(1)]	1968	Director and Chairman of Management Board
Guy de Selliers.....................................	1952	Director
Mikhail V. Dubinin[(1)]...........................	1969	Director
J.B. Mark Mobius	1936	Director
Michael A. O'Neill	1945	Director
Alexander S. Orlov[(1)]	1948	Director
Vladimir N. Sherbak............................	1939	Director
Victor A. Tutelyan	1942	Director
Earnest Linwood Tipton	1934	Director
Evgeny G. Yasin..................................	1934	Director
Svetlana V. Ardentova..........................	1973	Chief Financial Officer

Note:

(1) Party to the Amended and Restated Partnership and Cooperation Agreement. See "Item 7. Major Shareholders and Related Party transactions—A. Major Shareholders" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We are controlled by a group of shareholders whose interests could conflict with those of the holders of ADSs."

David Iakobachvili has served as Chairman of our Board of Directors since June 8, 2001. In addition, Mr. Iakobachvili acts as a consultant to Lianozovo Dairy Plant. He also serves as chairman of the board of directors of the following companies: Prospect OJSC, a utility repair and services company, and Metelitza-Club CJSC, an entertainment and restaurant company. In addition, he is a director of Trinity LLC, a technical equipment and services company, and Aeroport Financial Services Limited, a consulting company. Mr. Iakobachvili owns 6.4% of our outstanding stock.

Sergei A. Plastinin serves as the Chairman of our Management Board, which is our chief executive officer position. In 1993, he served as General Director of UT Center LLC; from 1994 to 1995 he was General Director of NPP of Juices and Drinks JSC; from 1996 to 1998 he was Deputy Director of PK Lianfruct JSC; from 1996 to 1998 he served as Deputy Director of Production of Foods CJSC; and from 1998 to 1999 he was Deputy Director of Lianozovo Dairy Plant. Since 1996, Mr. Plastinin has acted as Executive Director of PAG Rodnik CJSC. Since 1998, Mr. Plastinin has served as Deputy General Director of Production and Trade Group WBD CJSC. In addition, since 1998 Mr. Plastinin has acted as a consultant to Lianozovo Dairy Plant. All of these companies either currently are or formerly were a part of our group of companies. Mr. Plastinin owns 12.2% of our outstanding stock.

Guy de Selliers received a degree in engineering in 1975 and in economics in 1977 at the University of Lourain. Currently, Mr. de Selliers acts as Chairman of Leader Capital, a project equity fund. During 1999-2000, he acted as Chairman, Head of Europe, of Fleming Investment Bank. Mr. de Selliers is also a director in Solvay S.A., a global group of pharmaceutical and chemical companies, and an advisory director to Fortis, an international financial services provider. He was also a Deputy Vice President of EBRD from 1990 to 1997. He acted as Chief Executive Officer of MC.BBL investment bank in 1998.

Mikhail Dubinin served as Deputy General Director of ISSA, one the first companies of our group, from 1992 to 1993. From 1993 to 1994 he was the General Director of UT Center LLC; from 1994 to 1995 he was Executive Director of NPP of Juices and Drinks JSC; from 1995 to 1996 he was President of Trade Company WBD CJSC; from 1996 to 1999 he was Deputy Director of Production of Foods CJSC; from 1997 to 1998 he served as Deputy Director (Economic Affairs) of Lianozovo Dairy Plant; from 1998 to 1999 he was Deputy General Director of Lianozovo Dairy Plant. Since 1998, Mr. Dubinin has served as Deputy General Director of Production and Trade Group WBD. In addition, Mr. Dubinin acts as a consultant to the Executive Director of Lianozovo Dairy Plant. All of these companies either currently are or formerly were a part of our group of companies. Mr. Dubinin owns 12.2% of our outstanding stock.

J.B. Mark Mobius joined the Templeton organization in 1987 as president of Templeton Emerging Markets Fund Inc. in Hong Kong. Dr. Mobius has spent over thirty years working in Asia and other parts of the emerging markets world. As a result of his experience, in 1999 Dr. Mobius was appointed joint chairman of the World Bank and Organization for Economic Cooperation and Development (OECD) Global Corporate Governance Forum’s Investor Responsibility Taskforce. Dr. Mobius holds Bachelor’s and Master’s degrees from Boston University, as well as a Ph.D. in economics and political science from the Massachusetts Institute of Technology. Dr. Mobius has studied at the University of Wisconsin, University of New Mexico, and Kyoto University in Japan.

Michael A. O’Neill received a degree in Industrial Engineering from the College of Commerce Rathmines in 1967. He is also a Board member of Efes Brewers International and CTEK—Moscow. From 1989 to 1991, Mr. O’Neill was Deputy Region Manager of the Coca-Cola Company. From 1991 to 1997 he was the Region Manager of Eurasia of the Coca-Cola Company. From 1997 to 2000, Mr. O’Neill was the President of Nordic and Northern Eurasia Division of the Coca-Cola Company. In 2000, Mr. O’Neill retired from the Coca-Cola Company and he has acted as consultant to it since then.

Alexander S. Orlov was director of the milk department of Moscow Baby Food Plant from 1987 to 1992; from 1994 to 1997, Mr. Orlov served as General Director of Moscow Baby Food Plant; from 1997 to 1998 he was General Director of Lianozovo Dairy Plant. Since 1998, Mr. Orlov has served as General Director of Production and Trade Group WBD. In addition, Mr. Orlov acts as a consultant to Lianozovo Dairy Plant. Mr. Orlov graduated from the Moscow Technology Institute of Meat and Milk Industry in 1975. Mr. Orlov owns 6.9% of our outstanding stock.

Vladimir N. Sherbak currently acts as a consultant to Lianozovo Dairy Plant. From 1996 to 1999 Mr. Sherbak was Deputy Minister of Agriculture and Foods of the Russian Federation; from 1999 to 2000 he was Minister of Agriculture and Foods of the Russian Federation. Mr. Sherbak graduated from Krasnodar Polytechnic Institute in 1967 and from the Academy of Social Science of the Central Committee of the Communist Party in 1979.

Earnest Linwood Tipton has served for International Dairy Food Association (IDFA) and its organizations for over 35 years in various posts, culminating with his appointment to President and CEO in 1987. He is a respected resource on agricultural trade policy for Capitol Hill and federal agencies, and he has served as an advisor under both Republican and Democratic administrations, including his presidential appointment to the National Commission on Agricultural Trade and Export Policy in 1984. Mr. Tipton is a past president and chairman of the board of the National Economists Club and the National Economic Education Foundation. Prior to joining IDFA, he worked as an economist for a milk producers' cooperative and as a dairy economic consultant. Mr. Tipton also served as an officer in the U.S. Army Finance Corp.

Victor A. Tutelyan graduated from the Moscow Medical Institute in 1965. He is an academician of the Russian Academy of Medical Science and has been the chief secretary of its Presidium since 2001. Currently, Mr. Tutelyan is the head of the Institute of Nutrition of the Russian Academy of Medical Science. From 1980 to 2000, Mr. Tutelyan was the Deputy Director of the Institute of Nutrition of the Russian Academy of Medical Science.

Evgeny G. Yasin graduated from the Hydrotechnical Institute in 1957 with a degree in engineering and in 1963 from Moscow State University with a degree in economics. He has been a professor in the High School of Economy of the State University since July 1998. Currently, Mr. Yasin serves as a director of VimpelCom OJSC. From 1991 to 1994, Mr. Yasin was the Director of Economic Policy for the Russian Society of Manufactures and Entrepreneurs. In 1994, he was the head of the Analytical Center of the Administration of the Russian President. From 1994 to 1997, Mr. Yasin was the Minister of Economy of Russia. In 1998, Mr. Yasin acted as a Minister for the Russian government.

Svetlana V. Ardentova serves as our chief financial officer. Ms. Ardentova graduated from Ordzhenikidzhe State Management Academy in 1995, following which she joined us as a manager and economist for PK Litafruct CJSC and Trade Company WBD CJSC. From 1996 to 1997 she worked as an economist for the financial department of Trade Company WBD CJSC; from 1997 to 1998 as a deputy head of the department of financial planning of LMK; from 1998 to 1999 as a director of the methodology and technology division of economics department of LMK; and from 1999 to 2000 as the head of the planning and analysis division of the financial department of LMK. Since 2000, Ms. Ardentova has served as the director of the financial department of LMK. All of these companies either currently are or formerly were a part of our group of companies.

Several of our employees are related to members of our board of directors. In particular, Sergei A. Plastinin's brother-in-law, Dmitry P. Ufimkin, is a member of our Management Board; Alexander S. Orlov's son works for WIMM-BILL-DANN Germany GmbH; Alexander A. Kirichenko's son is the Deputy Managing Director of WBD Netherlands, and his daughter is a

Senior Manager of the sales division of Lianozovo Dairy Plant; Evgeny L. Yaroslavsky's father is an administrator of one our buildings; and Roman V. Bolotovsky's mother is an engineer at Tsaritsino Dairy Plant. In addition, the wife of Victor Y. Yevdokimov, who is a member of the management and board of directors of a number of our subsidiaries, is an engineer at Tsaritsino Dairy Plant.

B. Compensation of Directors and Senior Management

In 2001, the aggregate amount of compensation paid to our directors and executive officers as a group for services in all capacities was $3.4 million. The aggregate amount set aside for pension, retirement and other similar benefits for the same directors and executive officers as of December 31, 2001, was $nil.

C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at our annual general meeting using a cumulative voting system. Directors are elected for one year terms and may be re-elected an unlimited number of times. Our Board of Directors currently consists of eleven members, seven of whom are independent directors. The Board of Directors has the authority to make overall management decisions for the Company, except those matters reserved to the shareholders. See "—General Meetings of Shareholders" for more information regarding the competence of our shareholders' meetings. The members of our Board of Directors, as well as the members of the board of directors of our subsidiaries, do not serve pursuant to a contract, though we plan to conclude such contracts in the near future.

All of our directors were elected on May 31, 2002, and, pursuant to Russian law, their terms will expire on the date of our next annual shareholders' meeting, which will take place between March 1 and June 30, 2003. The business address for all of our officers and directors is 16 Yauzsky Boulevard, Moscow 109028, Russian Federation.

Management Board

The size of our Management Board, which consists of our executive officers, is determined by the Board of Directors and currently consists of 14 members: Sergei Plastinin, Svetlana Ardentova, Maxim Byrdin, Mikhail Dubinin, Konstantin Kozgunov, Dmitri Kolokatov, Leonid Kompaniets, Dmitri Kuprianov, Dmitri Makarov, Sergei Malayev, Alexander Nemirovsky, Olga Nechaeva, Dmitry Ufimkin and Vladislav Filatov. Members of the Management Board are nominated by the Chairman of the Management Board and confirmed by our Board of Directors for a term of three years. The Management Board is the collective executive body of the Company and, under the direction of the Chairman of the Management Board, is responsible for our day-to-day management.

Chairman of the Management Board

The Board of Directors appoints the Chairman of our Management Board, our chief executive officer, for a term of three years. The rights, obligations and the times and amounts of payment for the Chairman's services are determined by contract. The Chairman of the Management Board is responsible for day-to-day management of our activities.

Audit Commission

The Audit Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The members of our Audit Commission are nominated and elected by our shareholders for a term of one year. A Director may not simultaneously be a member of the Audit Commission. Our Audit Commission currently has six members: N. Vasilieva, N. Kolesnikova, E. Gorshechnikova, E. Kuznetsova, N. Romanova and E. Smirnova. We do not have any specific terms of reference under which our Audit Commission operates.

D. Employees

In 2001, we had 11,335 employees within Russia and the other countries of the CIS. We also had nine employees in the Netherlands and Israel. We do not employ a significant number of part-time employees. To date, we have experienced a low level of departures, voluntary or otherwise. We have not experienced any work stoppages, and we consider our relations with employees to be strong. Some of our employees are unionized and are employed pursuant to collective labor agreements. The following chart sets forth the number of our employees for the last three years.

Average for the year ended December 31,	Production and Supply	Marketing and Distribution	General and Administration	Percent Increase over Prior Year
2001				
Moscow region	3,089	907	1,182	19%
Central Russia(1)	2,073	517	444	370%
Asian Russia	1,245	207	241	72%
Other CIS countries	756	366	311	862%
Total	7,162	1,996	2,177	85%
2000				
Moscow region	2,746	648	941	14%
Central Russia(1)	466	58	121	13%
Asian Russia	1000	128	209	74%
Other CIS countries	68	47	34	n/a
Total	4,280	881	1,305	16%
1999				
Moscow region	2,467	470	857	
Central Russia(1)	421	58	93	

Average for the year ended December 31,	Production and Supply	Marketing and Distribution	General and Administration	Percent Increase over Prior Year
Asian Russia	560	87	122	
Other CIS countries	0	0	0	
Total	3,448	615	1,072	n/a

Note:
(1) Excluding Moscow region.

Our personnel enjoy a high level of social security. We provide subsidies for meals, medical care, children's New Year parties and summer vacations for employees and their children. Our employees have opportunities to upgrade their qualifications by participating in training sessions and taking courses. Starting in 1998, leading managers of our subsidiaries have been involved in programs to upgrade their professional skills through a program of the Russian government. We seek to maintain effective management teams at our regional subsidiaries by recruiting qualified new employees, transferring existing employees from our Moscow subsidiaries, as well as through customized retraining programs and on-site training in our Moscow subsidiaries. Programs for training local personnel are being developed and implemented at each of our regional plants.

E. Share Ownership

In reviewing the share information in this document, holders of our ADSs should note that each ADS is the economic equivalent of one share of our common stock.

The aggregate beneficial interest of our directors, senior management and employees as of February 14, 2002, was as follows:

Number of Shares of common stock	% of common stock outstanding
16,545,471	37.60%

For further description of the individual interest of our directors and senior management, see "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders."

Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information regarding the beneficial ownership of our common stock as of February 14, 2002, following our initial public offering, of the following:

- each person known by us to own beneficially any of our outstanding shares;
- all our directors and executive officers; and

- each of our shareholders that are sold shares in our initial public offering.

Name of Beneficial Owner	Number of Shares Owned	Percentage of Shares Outstanding
Gavril A. Yushvaev	8,272,948	18.80%
Mikhail V. Dubinin(1)(2)	5,351,421	12.16%
Sergei A. Plastinin(1)(2)	5,351,421	12.16%
Aleksandrs Timohins	3,057,264	6.95%
Alexander S. Orlov(1)	3,024,282	6.87%
David Iakobachvili(1)	2,818,347	6.41%
Mikhail I. Vishnyakov	1,357,798	3.09%
Evgeny L. Yaroslavsky	1,339,163	3.04%
Templeton Strategic Emerging Markets Fund LDC	518,000	1.18%
Viktor E. Evdokimov	396,405	0.90%
IK Prospect OJSC(2)	299,950	0.68%
American Depositary Receipt Holders	12,213,001	27.76%
Total	44,000,000	100.00%

Notes:

(1) Member of our Board of Directors.

(2) Member of our Management Board.

(3) IK Prospect OJSC is a nominee holder for Plasma Enterprises Limited, a Cypriot corporation which we believe is owned by Smith Management LLC, a New York corporation.

As of February 14, 2002, we had 44,000,000 shares of common stock outstanding. The total number of WBD ADSs outstanding was 12,213,001, representing underlying ownership of 27.76% shares, approximately 27.76% of our outstanding share capital. The share underlying the ADSs are deposited with Bankers Trust Company and the local custodian is OOO Deutsche Bank. All shares of common stock have the same voting rights.

Based on our share register, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control. From the date of completion of our initial public offering, February 14, 2002, there were not any significant changes in the percentage ownership held by any major shareholders.

B. Related Party Transactions

Disposition of bank and brewery businesses

As part of our corporate reorganization, in the spring of 2001 we disposed of our controlling interests in Expobank, a banking company, and Central European Brewing Company LLC, a holding company for four breweries. These dispositions were based on the desire to focus on our core dairy and juice business and to divest our ancillary operations before our initial public offering. These dispositions were completed through a distribution of shares of Expobank and Central European Brewing Company LLC to certain members of our controlling group of shareholders: Mikhail V. Dubinin, Alexander S. Orlov, Sergei A. Plastinin, Mikhail I. Vishnyakov, Gavril A. Yushvaev, Evgeny L. Yaroslavsky and Aleksandrs Timohins. Several of which are also members of our board of directors. See "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management" for a list of the members of our directors. In exchange, these same individuals simultaneously transferred their ownership in Tsaritsino Dairy Plant, totaling 55.3%, to Lianozovo Dairy Plant. The exchange was completed in April 2001. In addition, Mr. Vishnyakov, our shareholder, sold shares constituting 1.5% of Tsaritsino Dairy Plant to the Moscow Baby Food Plant in exchange for 5.0% of the shares of Expobank owned by the Moscow Baby Food Plant.

Trinity-Negus

Trinity-Negus, a Russian security services company provided us with security services in 2001, 2000 and 1999 for which we paid approximately $2.2 million, $1.7 million and $1.6 million, respectively. Trinity-Negus is a wholly owned subsidiary of Trinity LLC, in which two of our current shareholders, David Iakobachvili and Evgeny Yaroslavsky, are shareholders and directors, and Mikhail Vishnyakov is a director. Messrs. Iakobachvili, Yaroslavsky and Vishnyakov collectively own 17.4% of our common shares. Prior to 2002, Trinity-Negus provided security services to Moscow Baby Food Plant, Trade Company WBD CJSC, LMK, Fruit Rivers LLC, and TsMK under services contracts. All of these contracts have been terminated as of January 1, 2002, and we did not, and do not plan to, renew any of them.

Municipal Guard Agency

On December 25, 2001, Lianozovo Dairy Plant acquired a 100% stake of the charter capital of Municipal Guard Agency, a security services firm, from Trinity for approximately $700. All licenses and state permissions of Municipal Guard Agency remain valid following the sale, although they will be re-registered to reflect the change in ownership.

Avto-40

Trade Company WBD CJSC and Avto-40 entered into an agreement dated January 3, 2001, pursuant to which Avto-40 provided transportation services to Trade Company WBD. Services under this agreement are provided as ordered by Trade Company WBD on a daily basis. Prices for these services are established in this contract. The contract contains no total quantity or total price. In 2001, orders under the contract totaled 1.8 million rubles, or approximately $61,000.

Adonis

On January 19, 2001, Lianozovo Dairy Plant entered into an interest-free loan agreement, subsequently amended, with Adonis LLC, a Russian limited liability company which is controlled by some of our controlling shareholders. As of December 10, 2001, Adonis LLC had borrowed from Lianozovo Dairy Plant approximately $4.2 million. The purpose of the loan is to enable Adonis LLC to purchase construction services from MIWEL Limited, a Cypriot company, for the construction of office premises in Moscow. The total amount due for construction services pursuant to the contract between Adonis LLC and MIWEL Limited is approximately $8 million, and we intend to make further disbursements under this loan to cover this amount. Additionally, we intend to accept the office premises as full repayment of the loan, which is due June 30, 2002.

Poultry Factory Gorki-2

In 2001, we purchased milk from Poultry Factory Gorki-2, a closed joint stock company which is controlled by some of our controlling shareholders, amounting to approximately $580,000.

Expobank

During 1999 and 2000, we maintained bank accounts at, and received debt financing from, Expobank, a Russian bank which we, at that time, controlled. In April 2001, we transferred our interest in Expobank to certain of our shareholders in exchange for shares owned by these shareholders in Tsaritsino Dairy Plant. See "—Disposition of bank and brewery businesses" for a description of this exchange. These shareholders, on July 21, 2001, sold their interests in Expobank to MDM Bank, an unrelated entity. We received short-term financing of approximately $18.3 million and $7.8 million during 2000 and 1999, respectively, all of which was repaid within the year. Bank charges and interest relating to these financings were $176,000 and $271,000 for 2000 and 1999, respectively, with interest rates varying from 5% to 55% during 2000 and 29% to 39% during 1999. We currently have no debt outstanding from Expobank, and any future transactions with Expobank will be on arm's-length terms.

Sale of Shares to Templeton Strategic Emerging Markets Fund LDC

On January 4, 2002, certain of our controlling shareholders, Gavril Yushvaev, Mikhail Dubinin, Sergei Plastinin, Aleksandrs Timohins, Alexander Orlov, Mikhail Vishnyakov, Evgeny Yaroslavsky, and Viktor Evdokimov, entered into an agreement, to which we are also a party, to sell a total of 518,000 of our shares, constituting approximately 1.48% of our shares prior to the completion of our initial public offering, to Templeton Strategic Emerging Markets Fund LDC for a total amount of approximately $10.0 million, or $19.2870 per share. As part of the agreement, Templeton Strategic Emerging Markets Fund LDC agreed to nominate Dr. Mark Mobius to our board of directors. Our obligations under the transaction include the following:

Put option. We have given to Templeton a put option exercisable from January 1, 2003, through February 1, 2003. The put price is $19.2870 per share, plus the cost of a bank guarantee incurred by Templeton, limited to 3% of the $19.2870 per share price. The put option is not transferable and, upon exercise, requires physical settlement. The put option terminates on the earlier of the consummation of our initial public offering or the end of the exercise period if we do not complete an initial public offering.

Guarantee. OAO Alfa-Bank will issue a guarantee for the benefit of Templeton securing our obligation under the put option. The cost of the guarantee, up to a maximum of 3% of the purchase price of $19.2870 per share, will be included in the put price to us if the put option is exercised. However, if the put option terminates, either because we complete an initial public offering or because the term of the option expires, then Templeton will incur the cost of the guarantee. Lianozovo Dairy Plant will provide a suretyship to OAO Alfa-Bank in connection with the guarantee.

Representations and warranties. Under the Templeton agreement, we will also provide a number of representations and warranties to Templeton, including representations and warranties regarding our capital structure, ability of selling shareholders to enter into the agreement and its enforceability, the accuracy of our audited financial statements as of and for the years ended 1999 and 2000, and the absence of any event which would have a material adverse effect on us since the date of those financial statements. Under the agreement, Templeton will agree not to sell its shares until September 15, 2002. Templeton will not have any registration rights agreement with us.

Brewery Volga, Volga-Invest and Moskvoretzky Brewery

As of December 31, 2001, we had loan receivables from Brewery Volga, Volga-Invest and Moskvoretzky Brewery amounting to $0.7 million. These loans were interest-free and ruble-denominated. The loans were provided earlier in 2001 and before the alienation of these breweries, described more fully above under "—Disposition of bank and brewery businesses." In 2002, the maturity of these loans was extended to June 30, 2002, and the interest rate was increased to 18% per annum, which approximates market rate.

Potential Purchase of Stake in Baby Food Plant

Mr. Alexander Orlov, a party to the Amended and Restated Partnership and Cooperation Agreement, owns 4,666, or 25.1%, of the outstanding shares of the Moscow Baby Food Plant, of which we currently also own 51%. Given our 51% ownership, the financial results of the Moscow Baby Food Plant are already consolidated with our financial results. Our Board of Directors and shareholders approved our purchase of this stake for approximately $5 million, and a purchase agreement was executed in May 2002. However, the ownership rights in the shares will transfer to us only when the transfer of ownership is recorded in the share registry, which we expect will occur within a few months from the agreement execution date.

C. Interests of Experts and Counsel

Not applicable.

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

The summary financial data set forth below at December 31, 1999, 2000 and 2001 and for the years then ended have been derived from our audited financial statements prepared in accordance with U.S. GAAP. The summary financial data set forth below at and for the year ended December 31, 1998 have been derived from our unaudited financial statements prepared in accordance with U.S. GAAP. The summary financial data should be read in conjunction with our "Consolidated and Combined Financial Statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001" and "Item 5. Operating and Financial Review and Prospects." The data for 1997 have not been presented, as financial statements for this year were not reasonably obtainable at other than disproportionate expenses.

	For the periods ended December 31,			
	1998 (unaudited)	1999	2000	2001
	(Dollar amounts in thousands, except share, per share and dividends per common share amounts)			
Statement of Operations Data:				
Sales	438,931	357,678	465,411	674,616
Cost of sales	(336,602)	(293,676)	(349,077)	(492,990)
Gross profit	102,329	64,002	116,334	181,626
Selling and distribution expenses	(30,782)	(22,378)	(34,138)	(62,213)
General and administrative expenses	(39,740)	(29,266)	(43,025)	(54,461)
Other operating expenses	(2,549)	(3,117)	(1,241)	(4,498)
Operating income	29,258	9,241	37,930	60,454
Financial income and expenses, net	(5,442)	(270)	(5,664)	(10,581)
Income before provision for income taxes and minority interest	23,816	8,971	32,266	49,873
Provision for income taxes[1]	(11,609)	(2,446)	(9,568)	(14,166)
Minority interest	(1,000)	(583)	(1,453)	(3,962)
Income from continuing operations	11,207	5,942	21,245	31,745
(Loss) profit from discontinued operations[2]	(3,589)	(156)	138	103
Net income	7,618	5,786	21,383	31,848
Earnings per share—basic and diluted:				
Income from continuing operations	0.32	0.17	0.62	0.91
(Loss) profit from discontinued operations	(0.10)	(0.00)	0.00	0.00
Net income	0.22	0.17	0.62	0.91
Weighted average common shares outstanding	34,552,000	34,552,000	34,552,000	34,888,000
Other Data from Continuing Operations:				
Adjusted EBITDA[3] (unaudited)	29,537	19,340	46,870	73,721
Adjusted EBITDA margin[4] (unaudited)	6.7%	5.4%	10.1%	10.9%
Capital expenditures	31,499	32,650	25,423	57,653
Cash flows from operating activities	Not available[5]	6,696	22,011	19,009
Cash used in investing activities	Not available[5]	42,454	35,644	68,040
Cash provided by (used in) financing activities	Not available[5]	31,897	24,213	50,749

	At December 31,			
	1998 (unaudited)	1999	2000	2001
Balance Sheet Data:				
Total assets of continuing operations	124,953	177,980	235,039	352,717
Total assets	148,719	208,688	314,131	352,717
Total net assets of continuing operations	38,223	40,933	45,358	85,011
Total net assets of discontinued operations	876	720	8,348	-
Total short-term and long-term debt of continuing operations, including current portion	11,739	29,534	67,763	122,022
Total liabilities from continuing operations	52,462	104,278	154,847	244,330

Notes:

(1) Provision for income taxes includes the tax benefit in our juice business relating to the small enterprise tax legislation. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Provision for Income Taxes."

(2) Discontinued operations consist of banking and brewery businesses, which were disposed of in April 2001. See "Item 5. Operating and Financial Review and Prospects—B. Overall Liquidity and Capital Resources—Discontinued Operations."

(3) Adjusted EBITDA, which represents income before interest, taxes, depreciation and amortization, adjusted for minority interest, should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. Further, adjusted EBITDA as presented above may not be comparable to similarly titled measures reported by other companies. We believe that adjusted EBITDA is a relevant measurement to assess performance which attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortization policies.

(4) "Adjusted EBITDA margin" represents adjusted EBITDA as a percentage of sales.

(5) Cash flow information is not available for 1998 as financial statements for this year were not reasonably obtainable at other than disproportionate expenses.

Item 9 The Offer and Listing

(Items 9A 1-3, 9A 5-7, B, D, E and F are not applicable.)

A.4. Market Price Information

The following table sets forth the monthly high and low market prices per ADS on the New York Stock Exchange for each of the most recent four months since the completion of our initial public offering on February 8, 2002. Our ordinary shares are not currently listed in Russia, although they are admitted for listing on the RTS.

	High	Low
May 2002	$24.50	$22.50
April 2002	$24.95	$22.05

	High	Low
March 2002	$24.90	$22.16
February 2002	$22.60	$19.50

C. Markets

Our ordinary shares are not currently listed in Russia, although they are admitted for listing on the RTS. American Depositary Receipts, each representing twenty of our ordinary shares, have been listed on the New York Stock Exchange under the symbol "WBD" since February 8, 2002.

Item 10 Additional Information

A. Share Capital

Not applicable.

B. Charter and Certain Requirements of Russian Legislation

We describe below material provisions of our charter in effect on the date of this document and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

Our Purpose

Article 4.1 of our charter provides that our main goal is to earn a profit by providing the fullest and highest-quality satisfaction of the needs of legal entities and individuals for the products and services we offer.

Rights Attaching to Shares

Pursuant to our charter, we have the right to issue registered common shares, preferred shares, and other securities provided for by legal acts of the Russian Federation with respect to securities. Preferred shares may be issued only after corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

We have issued only common shares. Holders of our common shares have the right to vote at all general meetings of shareholders. As required by the Federal Law on Joint Stock Companies and our charter, all of our common shares have the same par value and grant to the shareholders who own them an identical amount of rights. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

- freely transfer the shares without consent of other shareholders;
- receive dividends;
- participate in shareholders meetings and vote on all matters of shareholder authority;

- transfer voting rights to its representative on the basis of a power of attorney;
- elect candidates for the board of directors and audit commission;
- if holding, alone or with other holders, 2% or more of the outstanding voting stock, within 30 days after the end of our fiscal year, make proposals for the annual shareholders' meeting and propose candidates for the board of directors, the management board, the counting commission, the audit commission and the general director;
- if holding, alone or with other holders, 10% or more of the outstanding voting stock, demand from the board of directors the calling of an extraordinary shareholders meeting or an unscheduled audit by the audit commission or an independent auditor;
- demand, under the following circumstances, repurchase by us of all or some of the shares owned by them,
    - — conclusion of a major transaction; and
    - — amendment of our charter that restricts the holder's rights (in addition, there is some uncertainty under Russian law as to whether such repurchase right exists in relation to closed issuance of shares and convertible securities);
- upon liquidation, receive a proportionate amount of our property after its obligations are fulfilled;
- have free access to certain company documents and receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the outstanding voting stock, have free access to accounting documents and minutes of the company's collective executive body; and
- exercise other rights of a shareholder given in our charter, under Russian legislation, and by decisions of shareholders meeting approved in accordance with its competence.

Preemptive Rights and Anti-Takeover Protections

Our charter provides existing shareholders with a preemptive right to purchase shares or convertible securities during an open subscription. In addition, the Federal Law on Joint Stock Companies provides shareholders with a preemptive right to purchase shares or convertible securities during a closed subscription if the following two conditions are met: (i) the shareholders did not participate in voting or voted against such subscription and (ii) persons other than the shareholders may subscribe for the shares pursuant to the subscription terms. Russian legislation also requires that any person that intends, either alone or with affiliates, to acquire 30% or more of the common stock of a company having more than 1,000 common shareholders must give at least 30, but no more than 90, days' prior written notice to the existing shareholders.

Additionally, a person acquiring 30% or more of the common stock of a company with more than 1,000 shareholders, within 30 days of acquiring 30% or more, must offer to buy all of common stock or securities that are convertible into common stock at a price not lower than the weighted average acquisition price of the common stock over the six months before the date of acquisition of 30% or more of the common stock. This requirement also applies to any acquisitions of 5% or more of the outstanding shares of a company in over the 30% level. Failure to observe this requirement results in the limitation of the acquirer to voting only those shares which were purchased in compliance with this requirement. This requirement may be waived in a company's charter or by a resolution adopted by a majority vote at a shareholders meeting, excluding the votes of the person acquiring shares. Our charter does not contain a waiver in relation to, and our shareholders have not waived, this requirement. Russian legislation is unclear on whether this requirement applies to shareholders already owning over 30% of a company's common stock.

Dividends and Dividend Rights

The Federal Law on Joint Stock Companies and our charter set forth the procedure for determining the annual dividends that we distribute to our shareholders. According to our charter, annual dividends are recommended to a shareholders meeting by a majority vote of the board of directors, and approved by an annual shareholders meeting by a majority vote. The annual dividend approved at an annual shareholders meeting may not be more than the amount recommended by the board of directors. Annual dividends are distributed to shareholders and nominal holders who were included in the company's register on the day on which the list of persons having the right to participate in the annual shareholders' meeting was compiled. See "—General Meetings of Shareholders—Notice and Participation." Dividends are not paid on treasury shares. Due to changes in the Federal Law on Joint Stock Companies, as of January 1, 2002 we can no longer pay interim dividends as provided for in our charter.

The Federal Law on Joint Stock Companies allows dividends to be paid only out of net profits for the current year calculated under Russian accounting principles and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets, minus the proposed dividend payment, is greater than the total of the company's charter capital and the company's reserve fund;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become as the result of payment of dividends, insolvent.

Distributions on Liquidation to Shareholders

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. Our charter allows us to be liquidated:

- by a three-quarters shareholders meeting vote; or
- by a court order.

Following a decision to liquidate us, the right to manage its affairs would pass to the liquidation commission which, in the case of voluntary liquidation, is appointed by shareholders meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but which is at least two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths caused by a company;
- employees;
- secured creditors;
- federal and local governmental entities claiming taxes and similar payments; and
- other creditors in accordance with Russian legislation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred stock and the liquidation value of the preferred stock, if any; and
- payments to holders of common stock on a pro rata basis.

Risks Regarding Exercise of Rights Associated with ADSs

The regulations governing nominee holders, custodians and depositaries are not yet well developed in Russia. The existing regulations could be interpreted as requiring a nominee holder or a depositary to obtain a license from the Russian authorities to act in that capacity with regard to shares of our common stock. This applies to both Russian and foreign nominee holders and depositaries. This could result in your inability to exercise your rights as a holder of our ADSs, including voting. The same problem may also affect the ability of the depositary to grant a discretionary proxy to a person designated by us if you do not give any voting instructions. Further, in the past, nominees have reportedly experienced difficulty in convincing registrars of their right to represent the beneficial holder and to obtain the benefits for the beneficial holders available under an applicable tax treaty. This could result in your inability to obtain the benefits due to you as a holder of our ADSs. However, the Federal Law on the Securities Markets provides that shares may be held by nominees entitled to receive dividends and to vote the shares on behalf of the beneficial owner upon receipt of the appropriate instructions from the beneficial owner. The nominee is required to provide information on the beneficial holder of the shares upon the demand of the registrar. Some of the difficulties initially experienced by investors appear to have been abated by the Federal Law on the Securities Markets and by the regulations on registrars that govern issues concerning nominees.

Approval of the Ministry of Antimonopoly Policy of the Russian Federation

Pursuant to Russian antimonopoly legislation, transactions exceeding a certain amount or involving a company considered to have a dominant market position and which would result in a shareholder's (or a group of affiliated shareholders) shareholdings in a company equaling or exceeding 20% of the total shareholdings in a company must be approved in advance by the Ministry of Antimonopoly Policy of the Russian Federation.

Notification of Foreign Ownership

Pursuant to Russian securities legislation, any foreign person or company acquiring shares in a Russian joint stock company must notify the Russian Federal Commission on Securities Markets of such acquisition on the date of such acquisition in the form and substance required by Russian securities legislation. In addition, foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition if they are already registered with the Russian tax authorities at the time of acquisition. Russian law is unclear as to whether foreign persons and companies that are not registered with the Russian tax authorities at the time of their share acquisitions must register solely for the reason of such share acquisitions. Other than these requirements, there are no requirements or restrictions with respect to foreign ownership of shares in the Company. All companies with foreign ownership interests are required to be registered in the State Register of Companies with Foreign Investment with the State Registration Chamber.

Liability of Shareholders

The Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is called an effective parent. The company whose decisions are capable of being so determined is called an effective subsidiary. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies, and
- the effective parent gives obligatory directions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Alteration of Capital

Share Capital Increase

We may increase our charter capital by

- issuing new shares, or
- increasing the nominal value of already issued shares using the company's net income.

Generally, a decision to increase the charter capital by issuing additional shares or increasing the nominal value of issued shares requires a majority vote of a shareholders meeting. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires that newly issued shares be sold at market value, except in limited circumstances where (i) existing shareholders exercise a preemptive right to purchase shares at not less than 90% of their market value or the price paid by third parties, or (ii) fees up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The market value may not be set at less than the nominal value of the shares. The board of directors and an independent appraiser value any in-kind payments for the new shares.

The Federal Commission on the Securities Market, under the power given to it by the Federal Law on the Securities Market, has issued detailed procedures for the registration and issue of shares of a joint stock company. These procedures require

- prior registration of a share issuance with the Federal Commission on the Securities Market;

- public disclosure of information relating to the share issuance; and
- following the placement of the shares, registration and public disclosure of the results of the placement of shares.

Capital Decrease; Share Buy-Backs

The Federal Law on Joint-Stock Companies does not allow a company to reduce its charter capital below the minimum charter capital required by law. As of December 1, 2001, the charter capital minimum for an open joint stock company was approximately $3,500. Our charter requires that any decision to reduce our charter capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, is by a majority vote of a shareholders meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of the publication or mailing of our notice, repayment of all amounts due to them, as well as compensation for damages.

The Federal Law on Joint Stock Companies allows the shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares either must be resold within one year of their repurchase or the shareholders must decide to cancel such shares and then either decrease the charter capital or increase the nominal value of the remaining shares to preserve the total amount of the charter capital.

The Federal Law on Joint Stock Companies allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets, taking account of the proposed repurchase, is not less than the sum of our charter capital or the reserve fund; and
- we have repurchased all shares from shareholders having a right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of their shares if

- we reorganize;
- our charter is amended and the change negatively affects a shareholder; or
- we engage in a major transaction, as defined under Russian law;

and as long as the shareholder demanding repurchase opposed the action or did not participate in the vote on such issues. In addition, there is some uncertainty under Russian law as to whether the shareholder may demand repurchase of its shares if we decide on a closed subscription for our shares. We may spend up to 10% of our net assets for a share redemption.

Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders meeting and that our board of directors is elected through cumulative voting. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires at least a seven-member board of directors for an open joint stock company with more than 1,000 holders of common stock, and at least a nine-member board of directors for an open joint stock company with more than 10,000 holders of common stock. Our charter provides that our board of directors consists of nine members.

The Federal Law on Joint Stock Companies prohibits a board of directors from acting on issues that fall within the exclusive competence of the general shareholders meeting. Our board of directors has the exclusive power to decide the following issues

- organization of shareholders meetings, including setting a date, approving an agenda, and determining the date of record for shareholders entitled to participate;
- our placement of bonds and other securities;
- determination of the market value of our property, market and repurchase price of our shares;
- our acquisition of shares, bonds, and other securities in certain cases provided for by the Law on Joint Stock Companies;
- determination of the formation of our executive bodies and early termination of their powers;
- election of our management board and its chairman and the establishment of their compensation;
- recommendations on the amount of the dividend on shares and the procedure for payment thereof;
- the use of our reserve fund;
- the creation of branches and representative offices;

- approval of major and interested party transactions in certain cases as provided for by the Law on Joint Stock Companies;

- determination of our business priorities;

- increase of our charter capital if such right is granted to the board of directors by the decision of the general shareholders' meeting;

- decision on our participation in other organizations with the exception of participation in holding companies, commercial or industrial groups where shareholders' vote is required by our charter; and

- approval of our share registrar.

Our charter generally requires a majority affirmative vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a qualified or unanimous vote, such as approval of major transactions or interested party transactions.

Interested Party Transactions

The Federal Law on Joint Stock Companies contains requirements for transactions with "interested parties." The definition of an "interested party" includes members of the board of directors, officers of a company and any person that owns, together with any affiliates, at least 20% of a company's voting shares if that person, or that person's relatives or affiliates is

- a party to a transaction with the company, whether directly, as a third party beneficiary, or as a representative or intermediary;

- the owner of at least 20% of the issued voting shares of a legal entity that is a party to a transaction with the company, whether directly, as a third party beneficiary, or as a representative or intermediary;

- a member of the board of directors or an officer of a company which is a party to a transaction with the company, whether directly, as a third party beneficiary, or as a representative or intermediary; or

- able to direct the actions of the company.

The Federal Law on Joint Stock Companies also introduces the definition of "an independent director" who is not, and within the year preceding the decision was not, a general director or a member of the management board if, in this instance, the person's spouse, parents, children, brothers or sisters are not persons occupying positions in the management authorities of the company or otherwise an affiliate of the company.

An interested party transaction entered into by a company with 1,000 or less shareholders shall be adopted by a majority vote of directors who are not "interested parties" in the transaction.

The Federal Law on Joint Stock Companies requires that a transaction by companies with more than 1,000 shareholders with an interested party be approved by a majority vote of the "independent directors" of the company who are not "interested parties" in the transaction. For companies with 1,000 or less shareholders, a transaction with an interested party must be approved by a majority vote of the directors who are not "interested parties" in the transaction if the number of these directors is sufficient to constitute a quorum.

A majority of shareholders who are not "interested parties" in the transaction is also required if:

- the value of such transaction exceeds 2% of the value of the company's assets;
- the transaction involves the issuance of common stock or securities convertible into voting shares in an amount exceeding 2% of the company's existing common stock; or
- all the members of the board of directors of the company are interested parties.

Approval by a majority of shareholders who are not "interested parties" may not be required for a transaction with an "interested party" if such transaction is substantially similar to transactions concluded by the company and the party in the normal course of business before such party became an "interested party."

Major Transactions

The Federal Law on Joint Stock Companies defines a "major transaction" as a transaction, or series of transactions, involving the acquisition or disposition, or a possibility of disposition of 25% or more of the balance sheet value of the assets of a company, with the exception of transaction completed in the normal course of business or a transaction, or series of transactions, involving placement of common shares, or securities convertible into common shares, comprising more than 25% of previously placed common shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or a simple majority affirmative vote of a shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters vote by a shareholders meeting.

General Meetings of Shareholders

Procedure

The powers of a shareholders meeting are set forth in the Federal Law on Joint Stock Companies and in our charter. A shareholders meeting may not decide issues that are not included in the list of its competence by the Federal Law on Joint Stock Companies and our charter. Among the issues which the shareholders have the exclusive power to decide are

- charter amendments;
- initiation of reorganization or liquidation;
- election of the members of the board of directors;
- determination of the number, nominal value, type of authorized shares and rights granted by such shares;
- changes in the company's charter capital;
- approval of transactions with interested parties, as defined under "Interested Party Transactions," and major transactions, as defined under "Major Transactions";
- distribution of profits and losses; and
- redemption by the company of issued shares.

Voting at a shareholders meeting is generally on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by an affirmative vote of a majority of the voting shares present at a shareholders meeting. However, Russian law requires a three-quarters affirmative vote of the voting shares present at a shareholders meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company;
- determination of the maximum amount, nominal value, and type of authorized shares and the rights granted by such shares;
- redemption by the company of issued shares; or
- any issuance of shares or securities convertible into shares by closed subscription, or issuance by open subscription of shares of common stock or securities convertible into common stock constituting 25% or more of the number of issued common shares.

The quorum requirement for our shareholders meetings is met if holders of shares that account for more than 50% of the votes have registered for participation in the meeting in person or whose ballots were timely received by us before the meeting. If the 50% quorum requirement is not met, another shareholders meeting must be scheduled and the quorum requirement is satisfied if holders of shares that account for at least 30% of the votes are present at that meeting.

The annual shareholders meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- determination of the number and election of members of the board of directors;
- approval of the annual report, balance sheet and profit and loss statement;
- approval of any distribution of profits;
- approval of an independent auditor; and
- approval of an internal audit commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce up to two proposals for the agenda of the annual shareholders meeting and may nominate candidates for the board of directors, management board, counting commission, audit commission and general director. Any agenda proposals or nominations must be provided to the company no later than 30 calendar days after December 31.

Extraordinary shareholders meetings may be called by the board of directors on its own initiative, or at the request of the audit commission, independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in direct form or by absentee ballot. The direct form contemplates the adoption of resolutions by the general meeting of shareholders through the joint personal attendance of the shareholders and their authorized representatives for the purpose of discussing and voting on issues on the agenda. However, if a ballot is mailed to a shareholder for participation at a meeting convened in a direct form, the shareholder may complete and mail the ballot back to us without personally attending the meeting. The absentee ballot contemplates the determination of shareholders' opinions on issues on the agenda by means of a written poll.

Notice and Participation

All shareholders entitled to participate in a given general shareholders meeting must be notified of a meeting, whether the meeting is to be held in direct or remote form, no less than 20 days prior to the date of the meeting. However, if reorganization is an agenda item, shareholders must be notified at least 30 days prior to the date of the meeting, and if it is an extraordinary shareholders meeting to elect the board of directors by cumulative vote, shareholders must be notified at least 50 days prior to the date of the meeting. The list of shareholders entitled to participate in a general shareholders meeting is to be compiled on the basis of data in our register of shareholders on the date established by the Board of Directors.

The date established for the compilation of the list of shareholders entitled to participate in a general shareholders meeting may be neither earlier than the date of adoption of the resolution to hold a general shareholders meeting nor later than 50 days before the date of the meeting or, in the case of a shareholders meeting to elect the Board of Directors by cumulative vote, not later than 65 days before the date of the meeting.

A general meeting of shareholders may be held by absentee ballot, or where shareholders attending the meeting may participate in voting using ballots sent to shareholders in preparation for the meeting in accordance with the requirements of the legislation of the Russian Federation.

The following issues cannot be decided by absentee ballot:

- election of directors;
- election of the audit commission;
- approval of company's independent auditor; and
- approval of the annual report, balance sheet, profit and loss statement, and any distribution of profits.

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right of absentee ballot to an authorized representative.

Registration and Transfer of Shares

All of our shares are common registered shares. Russian legislation requires that a joint stock company maintain a register of its shareholders. Since June 28, 2001, Central Moscow Depository OJSC has maintained our register of shareholders.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the share register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to that which is required by Russian legislation. Any refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is void and may be disputed.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and redeem the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 15% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% requirement.

C. Material Contracts

The following is a description of contracts that have been entered into by us and/or our subsidiaries that may be material to our business:

Tetra Pak Framework Agreement for Packages for Lianozovo Dairy Plant

On January 1, 2002, Lianozovo Dairy Plant entered into a framework supply agreement to purchase packages for its products from JSC Tetra Pak AO of Moscow. The contract terminates on December 31, 2002. The price for each type of packaging is specified in the contract. The contract does not specify a total price or quantity of packages. We estimate that the total amount of our purchases under the contract will be approximately $36 million. Under this agreement, Tetra Pak delivers packages to Lianozovo Dairy Plant in accordance with orders placed by Lianozovo Dairy Plant. Tetra Pak has the right to deliver up to 10% more or less than the quantity ordered, and the price will be adjusted accordingly.

Tetra Pak Framework Agreement for Our Juice Packages

On January 1, 2002, ZAO Wimm-Bill-Dann Purchaser entered into a framework supply agreement to purchase up to 630 million packages for our juice products from JSC Tetra Pak AO of Moscow for up to $55 million. The price for each type of packaging is specified in the contract. Tetra Pak will deliver packages to us in accordance with a delivery schedule to be agreed between Tetra Pak and us. Tetra Pak has the right to deliver up to 10% more or less than the quantity ordered, and the price will be adjusted accordingly.

Amended and Restated Partnership and Cooperation Agreement

Of our current shareholders, Gavril Yushvaev, Mikhail Dubinin, Sergei Plastinin, Aleksandrs Timohins, Alexander Orlov, David Iakobachvili and Mikhail Vishnyakov acted in concert since 1997 pursuant to a Partnership and Cooperation Agreement which required the parties to vote the same way. These shareholders observed this obligation by holding meetings prior to build a consensus approach on questions requiring shareholder approval prior to calling a shareholders' meeting. On January 16, 2002, these shareholders amended and restated this agreement to include the following:

New Party. Viktor Evdokimov was added as a party to the agreement.

Independent Directors. The parties to the agreement undertake to use their best efforts to ensure that a majority of our directors are "independent." A director is considered "independent" if that person is not

- our employee or an employee or director of any of our subsidiaries;
- a party to the agreement, a family member of a party to the agreement, or a person or entity controlled by a party to the agreement;
- an employee or director of
  - — a party to the agreement;
  - — a family member of a party to the agreement;
  - — a person or entity controlled by a party to the agreement;
  - — any other person or entity controlled by a family member of a party to the agreement; or
  - — a person or entity controlled by any employee or director of any of the parties to the agreement;
- a person or entity controlled by any family member of a party to the agreement or a person or entity controlled by any employee or director of a party to the agreement.

Voting. The parties to the agreement are required to vote all of our shares that they own in the same way. In order to determine how the parties will vote, the agreement requires them to attempt to agree unanimously on a single voting position on each item on the agenda for a shareholders' meeting. If they are unable to do so, then the following procedures are followed:

- The parties will vote their shares as determined by parties holding a two-thirds majority of the shares held by the parties;
- If there is no two-thirds majority among the parties, then the parties will vote their shares consistent with the recommendation of the majority of individuals who are on our board of directors; and
- If no voting position can be determined using the procedures noted above, then the parties will abstain from voting on that issue, in which case a quorum will not be present under Russian law and the issue would fail to be adopted.

Third-Party Beneficiaries. Beneficial owners of the our ADSs are third-party beneficiaries of the agreement and are entitled to enforce and bring actions in respect of the agreement. An action may only be brought, however, if beneficial owners of ADSs constituting more than 50% of our outstanding ADSs, excluding any ADSs held by the parties to the agreement, are parties to such action.

Dispute Resolution. The governing law of the agreement is the law of the State of New York. Any dispute, controversy or cause of action brought arising under the agreement will be settled by arbitration under the Commercial Arbitration Rules of the American Arbitration Association. Any cause of action brought by beneficial owners of more than 50% of the outstanding ADSs, excluding any ADSs held by parties to the agreement, at the option of these owners, may be brought in arbitration under the Commercial Arbitration Rules of the American Arbitration Association or may be litigated in the federal or state courts in the Borough of Manhattan. The parties to the agreement expect to appoint C T Corporation System, 111 Eighth Avenue, New York, New York 10011, as agent for service of process in New York.

Term. The agreement may not be terminated until the earlier to occur of:

- any party to the agreement owning all of our issued and outstanding shares;
- we are liquidated pursuant to the laws of the Russian Federation; or
- January 16, 2004.

Upon the occurrence of the first two events described above, the agreement automatically terminates. Otherwise, subject to these conditions, the agreement continues in full force and effect until terminated by any party to the agreement by giving 30 days' prior written notice to all other parties to the agreement and to us. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry—We are controlled by a group of shareholders whose interests could conflict with those of the holders of ADSs."

Lianozovo Dairy Plant Bonds Issuance and Our Guarantee

On September 10, 2001, the Board of Directors of Lianozovo Dairy Plant decided to issue 500,000 bearer bonds totaling 500 million rubles, or approximately $16.8 million. The issuance was registered by the Russian Federal Commission on Securities Markets on October 11, 2001, and the bonds were sold on November 1, 2001, on the Moscow Interbank Currency Exchange in an underwritten offering. The report on the results of the issuance was registered by the Russian Federal Commission on Securities Markets on November 23, 2001. The bonds mature 1,093 days from November 1, 2001. Interest is payable every three months until maturity. For the first year the interest rate was fixed at 22.75%, and it is to be subsequently adjusted depending upon market conditions and market rates of interest. Lianozovo Dairy Plant is obligated to redeem a bond if its holder notifies Lianozovo Dairy Plant of its intention to redeem the bond between October 10, 2002, and October 24, 2002.

We entered into Agreement No. 2-WBD with Lianozovo Dairy Plant on September 10, 2001, whereby we undertook to act a guarantor with respect to the bonds. The guarantee, unanimously approved by our shareholders on September 7, 2001, expires upon repayment of the bonds or of the guarantee in full.

D. Exchange Controls

Capital import and export restrictions

Russian currency exchange legislation limits the exchangeability of rubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert ruble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for rubles in Russia, but the exchange of rubles for foreign currency in Russia is restricted and rubles may not be exported (subject to certain exceptions applicable to authorized banks and individuals) or exchanged outside Russia. Non-residents may freely convert foreign currency into rubles. However, non-residents, other than individuals, may only do so through ruble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and ruble transactions between residents and non-residents. Russian currency legislation distinguishes between "current" foreign currency transactions and foreign currency transactions involving a "movement of capital."

"Current" foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. "Movement of capital" transactions in foreign currency, including the purchase and sale of securities (except for the acquisition of shares of a Russian company by non-resident shareholders in consideration for their contributions of foreign currency into the Russian company's share capital) and real estate transactions (except for the acquisition and lease of real estate located in Russia by non-residents from non-individual residents of Russia), generally require a license from the Russian Central Bank. The prevailing view is that the license is only required for Russian residents involved in such "movement of capital" transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75% of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the Russian Central Bank in increasing its foreign currency reserves. In 2001, the mandatory exchange requirement was reduced to 50% of export revenues.

In 2001, certain steps were taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long-term loans from foreign lenders without a Central Bank license provided that certain conditions are met.

In the years ended December 31, 2000 and 2001, we had minimal sales in foreign currency, although we plan to increase these sales. This requirement further increases balances in our ruble-denominated accounts and, consequently, our exposure to devaluation risk.

Restrictions on the remittance of dividends, interest or other payments to non-residents

The Federal Law on Foreign Investments in the Russian Federation specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the Russian exchange control regime may materially affect your ability to do so.

Central Bank Instruction #93-I on the Procedure for Opening Bank Accounts for Non-Residents in Russian currency, which addresses the payment of dividends to non-residents, provides that ruble dividends on common stock may be paid to the depositary or its nominee and converted into U.S. dollars by the depositary for distribution to owners of ADSs without restriction. Also, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws as long as the buyer is not a Russian resident.

Under the terms of the deposit agreement, there is no restriction on the sale of our ADSs in Russia to Russian residents. However, Russian currency control legislation will affect the ability of a non-resident of Russia to sell our ADSs to a Russian resident. Without a Central Bank license, a Russian resident generally can only purchase securities for rubles and up to $75,000 of foreign-currency denominated securities, such as our ADSs. Additionally, the repatriation of proceeds from the sale of securities in Russia may be subject to costs and delays.

The ability of the depositary and other persons to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble-currency and ruble-denominated investments.

E. Taxation

The following discussion describes the material United States federal and Russian income and withholding tax consequences to you if you are a U.S. holder of common stock or ADSs and a resident of the United States for purposes of the United States-Russia income tax treaty and are fully eligible for benefits under the United States-Russia income tax treaty. Subject to certain provisions of the United States-Russia income tax treaty relating to limitations on benefits, you generally will be a resident of the United States for treaty purposes that is entitled to treaty benefits if you are:

- liable, under the laws of the United States, to U.S. tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income); and

- not also a resident of the Russian Federation for Russian tax purposes.

The benefits under the United States-Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs or common stock in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States-Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office, and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

The following discussion is based on:

- the United States Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof;

- Russian legislation; and

- the United States-Russia income tax treaty (and judicial and administrative interpretations thereof);

all as in effect on the date of this document. All of the foregoing are subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

We believe, and the following discussion assumes, that for United States federal income tax purposes, we are not a passive foreign investment company or a foreign personal holding company for the current taxable year and will not become a passive foreign investment company or foreign personal holding company in the future.

The following discussion is intended as a general description only and is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential United States federal or Russian income and withholding tax consequences to you of ownership of common stock or ADSs. We urge you to consult your own tax adviser regarding the specific United States federal, state, and local and Russian tax consequences of the ownership and disposition of the common stock or ADSs under your own particular factual circumstances.

Russian Income and Withholding Tax Considerations

The Russian tax rules applicable to U.S. holders are characterized by significant uncertainties and by an absence of interpretive guidance. Russian tax authorities have not provided any guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In particular, it is unclear whether Russian tax authorities will treat U.S. holders as the beneficial owners of the underlying shares for the purposes of the United States-Russia income tax treaty. If the Russian tax authorities were not to treat U.S. holders as the beneficial owners of the underlying shares, then the benefits discussed below regarding the United States-Russia income tax treaty would not be available to U.S. holders. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the Russian Legal System and Russian Legislation—You may not be able to benefit from the United States-Russia income tax treaty." Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Currently, the Russian government is in the process of replacing the existing tax legislation with a comprehensive tax code, but it is unclear when this process will be completed and how U.S. holders would be affected. As of January 1, 1999, Part 1 (General) of the Tax Code went into effect. This law defines the general principles of taxation in Russia, the legal status of taxpayers and tax agencies, and determines general rules of tax filings and tax control, as well as procedures for challenging tax agencies. Importantly, together with the Law on the Fundamentals of the Tax System of the Russian Federation, Part 1 specifies all the taxes that can be imposed by federal and local authorities. Further, as of January 1, 2001 four chapters (value-added taxes, excise tax, individual income tax and unified social tax) of Part 2 of the Tax Code went into effect. The Profit Tax Chapter of the Tax Code became effective as of January 1, 2002.

Taxation of Dividends

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate to 30% rate for individual holders. This tax may be reduced to 5% to 10% under the United States-Russia income tax treaty for U.S. holders. There is significant uncertainty, however, regarding the procedures and documentation required for claiming tax treaty benefits by non-resident legal entities as of January 1, 2002. U.S. holders wishing to claim treaty benefits with respect to dividends payments should provide the required documentation to us as soon as possible and in any event before the dividend payment date. These procedures are described in greater detail under "United States-Russia Income Tax Treaty Procedures" below.

If the appropriate documentation has not been provided to us before the dividend payment date, we are required to withhold tax at the full rate, and U.S. holders qualifying for a reduced rate under the United States-Russia income tax treaty then would be required to file claims for a refund within one to three years with the Russian tax authorities. There is significant uncertainty regarding the availability and timing of such refunds.

Taxation of Capital Gains

U.S. holders generally should not be subject to any Russian income or withholding taxes in connection with the sale, exchange, or other disposition of ADSs or common stock outside of Russia if the shares or ADSs are not sold to a Russian resident. Sales or other dispositions of ADSs or common stock to Russian residents, however, may be subject to Russian income or withholding taxes, and for such a sale by a U.S. holder, the Russian resident purchaser may be required to withhold 20% to 30% of any gain realized on the sale. Although the Russian tax rules provide for a procedure to determine a holder's tax basis for the purpose of determining taxable gain, there is some risk that in practice a Russian resident purchaser may withhold tax on the entire proceeds of the transaction. However, U.S. holders may be able to avoid Russian withholding tax on the disposition of common stock or ADSs to Russian residents, or obtain a refund of any withheld amounts, by relying on the United States-Russia income tax treaty and complying with the appropriate procedures described below.

United States-Russia Income Tax Treaty Procedures

Under current rules, to claim the benefit of a reduced rate of withholding under the United States-Russia income tax treaty, a non-resident generally must provide official certification from the U.S. tax authorities of eligibility for the treaty benefits, which certification must meet the requirements of Russian law.

The Russian tax authorities have not yet adopted regulations that detail the procedure for claiming tax treaty benefits.

In the United States, a U.S. holder may obtain the appropriate certification of eligibility for tax treaty benefits by mailing a letter requesting such certification, together with certain information, to: IRS—Philadelphia Service Center, Foreign Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. Because obtaining this required certification from the Internal Revenue Service may take six to eight weeks, U.S. holders should apply for such certification as soon as possible within the relevant calendar year.

The depositary has no obligation to assist an ADS holder with the completion and filing of any tax forms.

After January 1, 2002, if a Russian resident withholds tax on capital gains or other amounts, U.S. holders, other than individuals, may apply for a tax refund by filing form No. 1011DT (2002) or form No. 1012DT (2002), which must be signed by the U.S. tax authorities, and certain other documents with the Russian tax authorities. The filing for a tax refund should occur within three years following the end of the tax term during which the withholding occurred. However, procedures for processing such claims have not been fully established, and there is significant uncertainty regarding the availability and timing of such refunds. Individual holders may also apply for a tax refund, which filing should take place no later than one year following the end of the tax term during which the withholding occurred. There is even more uncertainty as for the procedure and practical availability of such refunds for individuals. It is also unclear whether

U.S. holders are subject to the general rules applicable to tax refunds, whereby the holder would need to file for a tax refund pursuant to the time period requirements described in this paragraph, but no later than one month following the date on which such U.S. holder became aware of the withholding.

United States Federal Income Tax Considerations

The following is a general description of the material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs or common stock who is a citizen or resident of the United States, a corporation (including any entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or a political subdivision thereof, an estate the income of which is subject to U.S. tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions or, if the trust was in existence on August 20, 1996 and has properly elected to continue to be treated as a United States person. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of ADSs or common stock, the United States federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Since your United States federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- an insurance company,
- a tax-exempt organization,
- a financial institution,
- a person subject to the alternative minimum tax,
- a person who is a broker-dealer in securities,
- an S corporation,
- an expatriate subject to Section 877 of the United States Internal Revenue Code,
- an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of common stock, or
- an owner holding ADSs or common stock as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is generally limited to persons holding common stock or ADSs as "capital assets" within the meaning of Section 1221 of the United States Internal Revenue Code and whose functional currency is the United States dollar. The discussion below also does not address the effect of any United States state or local tax law or foreign tax law.

For purposes of applying United States federal income and withholding tax law, a holder of an ADS will be treated as the owner of the underlying shares of common stock represented by that ADS.

Taxation of Dividends on Common Stock or ADSs

For United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, with respect to common stock or ADSs will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. Distributions in excess of our current or accumulated earnings and profits will be applied against and will reduce your tax basis in common stock or ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such common stock or ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on common stock or ADSs, which is generally available for dividends paid by U.S. corporations.

If a dividend distribution is paid in rubles, the amount includible in income will be the U.S. dollar value of the dividend, calculated using the exchange rate in effect on the date the dividend is includible in income by you, regardless of whether the payment is actually converted into U.S. dollars. Any gain or loss resulting from currency exchange rate fluctuations during the period from the date the dividend is includible in your income to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss. You may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States-Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying dividend.

Russian withholding tax at the rate applicable to you under the United States-Russia income tax treaty will be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

A dividend distribution will be treated as foreign source income and will generally be classified as "passive income" or, in some cases, "financial services income" for United States foreign tax credit purposes. The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your own tax advisors with respect to those rules.

Taxation on Sale or Exchange of Common Stock or ADSs

The sale of common stock or ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale and your adjusted basis in such common stock or ADSs. That gain or loss will be capital gain or loss if the common stock or ADSs are capital assets in your hands and will be long-term capital gain or loss if the common stock or ADSs have been held for more than one year. If you are an individual, such realized long-term capital gain is generally subject to a maximum tax rate of 20%. Limitations may apply to your ability to offset capital losses against ordinary income.

Deposits and withdrawals of common stock by you in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

If Russian tax is withheld on the sale of common stock or ADSs, you may not be entitled to credits for the amount withheld, even though the procedures for claiming refunds under the United States-Russia income tax treaty and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

Information Reporting and Backup Withholding

Dividends and proceeds from the sale or other disposition of common stock or ADSs that are paid in the United States or by a U.S. related financial intermediary will be subject to U.S. information reporting rules and United States backup withholding tax, unless you are a corporation or other exempt recipient. In addition, you will not be subject to backup withholding if you provide your taxpayer identification number and certify that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding, but such holders may be required to provide certification as to their non-U.S. status.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's public reference facilities at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. We will not be filing electronically with the SEC, although we may be required or choose to do so in the future.

I. Subsidiary Information

Not applicable.

Item 11 Quantitative and Qualitative Disclosures about Market Risk

The following is a discussion of our market risk exposures from changes in both foreign currency exchange rates and interest rates relating to our continuing operations. The discussion excludes our discontinued operations related to our banking and brewery businesses. See "Item 5. Operating and Financial Review and Prospects—B. Overall Liquidity and Capital Resources—Discontinued Operations."

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. Foreign currency exchange risks exist to the extent that our revenues are primarily denominated in Russian rubles and our costs are denominated in currencies other than Russian rubles. We are subject to market risk deriving from changes in interest rates on our floating and fixed rate debts which may affect the cost of our financing. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We do not hold or issue derivatives or other financial instruments for trading purposes. We do not use derivatives or other financial instruments to limit our currency and interest rate risk exposures because the market for these types of financial instruments in Russia is not well developed and the costs of these instruments is relatively high. We are monitoring the market for these instruments and will consider their use if the related costs become lower.

Interest Rate Risk

The table below provides information about WBD's borrowings split by fixed and variable rate borrowings. We have not entered into agreements to hedge risks associated with the movement of interest rates. At December 31, 2001, we had debt amounting to $122.0 million, of which $21.6 million comprised variable-rate borrowings, $83.6 million comprised fixed-rate borrowings and $16.8 million fixed and variable borrowings.

We do not expect to enter into transactions designed to hedge against interest rate risks, which may exist under its current, or future, indebtedness.

For indebtedness as of December 31, 2001, the table below presents the principal cash flows and related weighted average interest rates by expected maturity dates.

	Expected Maturity Date as of December 31,								
	Currency	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**	**Fair value**	**Interest rates at December 31, 2001**
				(in thousands of U.S. dollars)					
Variable-rate debt:									
Moscow City Government...	Rubles	$ 10,596	—	—	—	—	$ 10,596	$ 10,390	$^{1}/_{3}$ of Central Bank of Russia rate (8.33%)

	Currency	2002	2003	2004	2005	2006	Total	Fair value	Interest rates at December 31, 2001
		Expected Maturity Date as of December 31, (in thousands of U.S. dollars)							
Commerzbank, line of credit	U.S. dollars	3,000	—	—	—	—	3,000	3,000	One month LIBOR + 5.25% (7.09%)
ING-Bank, lines of credit	EURO	1,391	537	537	404	—	2,869	2,869	One month EURIBOR + 3.11% (6.42%)
ING-Bank, lines of credit	U.S. dollars	1,265	173	173	173	355	2,139	2,139	One month LIBOR + 1.68% (3.52%)
Raiffeisenbank, line of credit	EURO	703	402	—	—	—	1,105	1,105	Three months LIBOR + 2.00% (5.31%)
Credit Lyonnais Rusbank	U.S. dollars	924	—	—	—	—	924	924	One month LIBOR + 2.50% (4.34%)
Citibank T/O	EURO	319	160	—	—	—	479	479	Three months LIBOR + 1.50% (4.81%)
Commerzbank, line of credit	EURO	102	102	102	73	—	379	379	Three months EURIBOR + 2.00% (5.31%)
Other	Rubles	137	—	—	—	—	137	137	1/4 of Central Bank of Russia rate (6.25%)
Total variable rate debt:		$18,437	1,374	812	650	355	$21,628	$21,422	
Fixed-rate debt:									
Sberbank, lines of credit	Rubles	$20,557	—	—	—	—	$20,557	$20,557	18.00%
Alfa Bank	U.S. dollars	16,962	—	—	—	—	16,962	16,962	13.02%
Sberbank, revolving lines of credit	Rubles	7,478	—	—	—	—	7,478	7,478	18.00%
Sberbank	Rubles	6,831	—	—	—	—	6,831	6,831	18.63%
Vneshtorgbank	U.S. dollars	5,500	—	—	—	—	5,500	5,500	12.00%
MDM Bank, revolving lines of credit	Rubles	4,644	—	—	—	—	4,644	4,644	20.00%
Vneshtorgbank, line of credit	Rubles	3,981	—	—	—	—	3,981	3,981	18.50%
Rosdorbank	Rubles	3,318	—	—	—	—	3,318	3,318	17.00%

	Currency	2002	2003	2004	2005	2006	Total	Fair value	Interest rates at December 31, 2001
		Expected Maturity Date as of December 31,							
		(in thousands of U.S. dollars)							
Rosdorbank, lines of credit	Rubles	3,152	—	—	—	—	3,152	3,152	17.00%
Citibank T/O	Rubles	2,986	—	—	—	—	2,986	2,986	17.50%
MDM Bank, lines of credit	Rubles	2,322	—	—	—	—	2,322	2,322	20.00%
Moscow Industrial Bank, lines of credit	Rubles	759	362	—	—	—	1,121	1,121	26.00%
Moscow Industrial Bank	Rubles	664	—	—	—	—	664	664	21.00%
Other	Various	2,436	1,524	43	43	—	4,046	4,046	24.44%
Total fixed rate debt:		$81,590	1,886	43	43	—	$83,562	$83,562	
Fixed and variable debt:									
Bonds payable[1]	Rubles	$16,832	—	—	—	—	$16,832	$16,832	22.75%
Total fixed and variable rate debt:		$16,832	—	—	—	—	$16,832	$16,832	

Note:

(1) Interest is fixed at 22.75% from November 1, 2001 to November 1, 2002 and is to be subsequently adjusted depending upon market conditions and market rates of interest. The bonds mature 1,093 days from November 1, 2001. LMK is obliged to redeem a bond if its holder notifies LMK of its intention to redeem the bond between October 10, 2002 and October 24, 2002.

The carrying amounts of short-term loans approximate their fair values due to the short maturity of those instruments. We believe that the carrying value of the Group's long-term debt approximates its fair value.

We have not experienced significant changes in the market risks associated with our debt obligations in the table above subsequent to December 31, 2001.

Foreign Currency Risk

We are exposed to movements in the ruble/U.S. dollar exchange rate in respect of our ruble denominated monetary assets and liabilities. Our ruble-denominated monetary assets and liabilities at December 31, 2000 and 2001 are as follows:

	2000	2001
	(in thousands of U.S. dollars)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,582	$ 5,823
Trade receivables, net	9,993	16,979
Taxes receivables	20,873	34,386
Advances paid	1,213	-
Net investment in direct finance leases	490	566
Other current assets	2,786	3,432
Total current assets	39,937	61,186
NET INVESTMENT IN DIRECT FINANCE LEASES — long-term portion	1,000	725
OTHER ASSETS	36	339
CURRENT LIABILITIES:		
Trade accounts payable	6,084	14,708
Advances received	1,888	1,976
Short-term loans	41,212	68,938
Long-term loans, current portion	1,009	919
Taxes payable	8,590	13,528
Accrued liabilities	7,772	8,534
Other payables	2,620	4,799
Total current liabilities	69,175	113,402
LONG-TERM LIABILITIES:		
Long-term loans	1,574	1,976
Bonds payable	-	16,589
Other payables	822	664
Total long-term liabilities	2,396	19,229
Net ruble denominated monetary liabilities	$ 30,598	$ 70,381

Short-term loans of $68.9 million, in the table above, are all due at various dates within a year from December 31, 2001. Long-term loans, excluding the current portion, and other long-term payables are primarily due before December 31, 2003.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term loans reported in the consolidated and combined balance sheets approximate their fair values due to the short maturity of those instruments. We believe that the carrying value of the Group’s long-term debt approximates its fair value.

Generally, as the value of the ruble declines, a net ruble monetary liability position results in currency remeasurement gains and a net ruble monetary asset position results in currency remeasurement losses. In the years ended December 31, 2000 and 2001 we had $1.1 million and $2.5 million, respectively, of currency remeasurement gains which were reflected in the consolidated and combined statements of operations.

See also “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Exchange Rates and Inflation.”

Item 12 Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13 Defaults, Dividend Arrearages and Delinquencies

None.

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

B. Use of Proceeds

On January 16, 2002, we filed a registration statement on Form F-1 (Registration No. 333-14278) under the Securities Act of 1933, as amended, with the Commission with respect to our initial public offering. The Registration Statement was declared effective on February 7, 2002, and the offering was completed on February 12, 2002. All of the 7,480,000 ADSs offered by us pursuant to the offering at an initial offering price of $19.50 per ADS were sold for a total of $145.9 million. The underwriters purchased an additional 1,520,000 ADSs from us at the offering at the price of $19.50 per ADS for a total of $29.6 million. The underwriters of the offering were ING Barings Limited (as an agent for ING Bank, N.V., London branch), Credit Suisse First Boston (Europe) Limited, J.P. Morgan Securities Ltd., Renaissance Capital Investments (Cyprus) Limited and Salomon Brothers International Ltd. The net proceeds we received from the offering was approximately $161.7 million, after deducting an estimated $8.8 million in underwriting discounts and commissions and an estimated $5 million in regulatory, legal, accounting and other miscellaneous fees and expenses.

During 2002, we intend to use approximately $161.7 million of our net proceeds for the following purposes:

Use	Approximate Amount
Capital expenditures, including the purchase of dairy and juice equipment and acquisitions of additional plants	$107.7 million
Retirement of portions of our current short-term and long-term debt	$45.0 million
General corporate purposes, such as working capital	$9.0 million
Total:	$161.7 million

As of March 31, 2002, we have actually used approximately $52.5 million of our net proceeds for the following purposes:

Use	**Approximate Amount as of March 31, 2002**
Capital expenditures, including the purchase of equipment	$3.0 million
Acquisitions of additional plants	$5.5 million
Retirement of short-term debt	$44.0 million
Total:	$52.5 million

Item 15 [Reserved]

Item 16 [Reserved]

PART III

Item 17 Financial Statements

Not applicable.

Item 18 Financial Statements

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Report of Independent Public Accountants

To Wimm-Bill-Dann Foods:

We have audited the accompanying consolidated and combined balance sheets of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company, and its subsidiaries ("the Group") as of December 31, 2000 and 2001 and the related consolidated and combined statements of operations, cash flows and shareholders' equity for the years ended December 31, 1999, 2000 and 2001. These consolidated and combined financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated and combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated and combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Wimm-Bill-Dann Foods and its subsidiaries as of December 31, 2000 and 2001 and the results of their operations and their cash flows for the years ended December 31, 1999, 2000 and 2001 in conformity with accounting principles generally accepted in the United States.

Moscow, Russia

April 15, 2002

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2000 AND 2001

(Amounts in thousands of U.S. dollars, except share amounts)

ASSETS

	2000	2001
CURRENT ASSETS:		
Cash and cash equivalents (Note 6)	$ 5,501	$ 6,919
Trade receivables, net (Note 7)	9,993	25,271
Inventory, net (Note 8)	55,477	89,501
Taxes receivable (Note 9)	20,873	34,917
Advances paid (Note 10)	8,310	13,069
Net investment in direct financing leases (Note 11)	1,069	1,172
Deferred tax asset (Note 21)	2,785	2,060
Other current assets	3,166	6,886
Total current assets from continuing operations	107,174	179,795
Current assets from discontinued operations (Note 5)	63,569	-
Total current assets	170,743	179,795
PROPERTY, PLANT AND EQUIPMENT, net (Note 12)	115,999	155,009
GOODWILL, net (Note 13)	933	11,179
NET INVESTMENT IN DIRECT FINANCING LEASES – long-term portion (Note 11)	4,672	4,076
INVESTMENTS (Note 14)	1,993	2,319
OTHER ASSETS (Note 15)	4,268	339
Total long-term assets from continuing operations	127,865	172,922
LONG-TERM ASSETS FROM DISCONTINUED OPERATIONS (Note 5)	15,523	-
Total assets	$ 314,131	$ 352,717

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2000 AND 2001

(Amounts in thousands of U.S. dollars, except share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	2000	2001
CURRENT LIABILITIES:		
Trade accounts payable	$ 42,865	$ 53,938
Advances received	1,888	2,088
Short-term loans (Note 17)	56,574	91,928
Long-term loans, current portion (Note 17)	2,475	8,099
Bonds payable (Note 18)	-	16,832
Taxes payable	8,590	14,279
Accrued liabilities (Note 16)	7,772	9,098
Government grants – current portion (Note 22)	2,545	2,545
Obligations under capital leases (Note 19)	807	95
Other payables	2,615	5,002
Total current liabilities from continuing operations	126,131	203,904
Current liabilities from discontinued operations (Note 5)	62,722	-
Total current liabilities	188,853	203,904
LONG-TERM LIABILITIES:		
Long-term loans (Note 17)	8,714	5,163
Other long-term payables (Note 20)	2,113	17,986
Government grants – long-term portion (Note 22)	15,409	13,348
Deferred taxes (Note 21)	2,480	3,929
Total long-term liabilities from continuing operations	28,716	40,426
Long-term liabilities from discontinued operations (Note 5)	5,089	-
Total long-term liabilities	33,805	40,426
Total liabilities	222,658	244,330
COMMITMENTS AND CONTINGENCIES (Note 32)		
MINORITY INTEREST (Note 24)	37,767	23,376
SHAREHOLDERS' EQUITY (Note 23):		
Common stock: 44,000,000 shares authorized and 35,000,000 shares issued, with a par value of 20 rubles (Note 1)	23,755	24,063
Share premium account (Note 4)	-	7,850
Retained earnings	29,951	53,098
Total shareholders' equity	53,706	85,011
Total liabilities and shareholders' equity	$ 314,131	$ 352,717

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

(Amounts in thousands of U.S. dollars, except share and per share data)

	1999	2000	2001
SALES (Note 30)……	$ 357,678	$ 465,411	$ 674,616
COST OF SALES (Note 25)……	(293,676)	(349,077)	(492,990)
Gross profit……	64,002	116,334	181,626
SELLING AND DISTRIBUTION EXPENSES (Note 26)……	(22,378)	(34,138)	(62,213)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 27)	(29,266)	(43,025)	(54,461)
OTHER OPERATING EXPENSES ……	(3,117)	(1,241)	(4,498)
Operating income ……	9,241	37,930	60,454
FINANCIAL INCOME AND EXPENSES, NET (Note 28)……	(270)	(5,664)	(10,581)
Income before provision for income taxes and minority interest……	8,971	32,266	49,873
PROVISION FOR INCOME TAXES (Note 21)……	(2,446)	(9,568)	(14,166)
MINORITY INTEREST (Note 24)……	(583)	(1,453)	(3,962)
INCOME FROM CONTINUING OPERATIONS……	5,942	21,245	31,745
(Loss) income from discontinued operations, net of income tax expense of $1,342, $870 and $313, respectively (Note 5)……	(156)	138	103
NET INCOME……	$ 5,786	$ 21,383	$ 31,848
Weighted average number of shares outstanding (Note 1)……	34,552,000	34,552,000	34,888,000
Earnings per share – basic and diluted:			
Income from continuing operations…. ……	$ 0.17	$ 0.62	$ 0.91
(Loss) income from discontinued operations……	(0.00)	0.00	0.00
Net income……	$ 0.17	$ 0.62	$ 0.91

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Amounts in thousands of U.S. dollars)

	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash flows from continuing operating activities			
Income from continuing operations	$ 5,942	$ 21,245	$ 31,745
Adjustments to reconcile income to net cash provided by operating activities:			
Minority interest	583	1,453	3,962
Depreciation	7,781	8,941	12,267
Amortization of goodwill	25	25	455
Finance lease expense	159	96	50
Provision for obsolete inventory	(78)	(427)	182
Allowance for doubtful accounts	144	139	226
Loss on disposal of property, plant and equipment	565	168	341
Earned income on net investments in direct financing leases	-	(519)	(561)
Deferred taxes	(1,181)	(88)	2,173
Currency remeasurement loss relating to cash and cash equivalents	369	109	300
Non-cash rental received	58	949	1,621
Write off of net investment in direct financing leases	-	-	288
Changes in operating assets and liabilities:			
Increase in inventories	(13,791)	(4,317)	(30,296)
Increase in trade accounts receivable	(3,662)	(3,801)	(14,107)
Increase in advances paid	(1,293)	(3,886)	(5,434)
Increase in taxes receivable	(5,879)	(7,221)	(13,885)
Decrease (increase) in other current assets	67	(2,045)	(3,285)
Increase in trade accounts payable	6,102	9,437	9,377
(Decrease) increase in advances received	(55)	275	(306)
Increase (decrease) in taxes payable	7,071	(822)	5,356
Increase in accrued liabilities	2,795	1,390	1,326
Increase in other current payables	806	773	1,341
Increase in other long-term payables	168	137	15,873
Net cash provided by operating activities associated with continuing operations	6,696	22,011	19,009
Cash flows from discontinued operating activities			
Net (loss) income from discontinued operations	(156)	138	103
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Minority interest	(200)	(108)	(96)
Depreciation	241	402	97
Amortization of goodwill	(681)	(594)	(38)
Allowance for doubtful accounts	11	356	(89)
Deferred taxes	328	(360)	247
Currency remeasurement loss relating to cash and cash equivalents	1,325	415	212
Net change in operating assets and liabilities – the Breweries (Note 5)	-	163	(276)
Net change in operating assets and liabilities – Expobank (Note 5)	1,023	13,978	(12,628)
Net cash provided by (used in) operating activities associated with discontinued operations	1,891	14,390	(12,468)
Total net cash provided by operating activities	8,587	36,401	6,541

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001 (CONTINUED)

(Amounts in thousands of U.S. dollars)

	1999	2000	2001
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions of subsidiaries	$ (650)	$ (4,361)	$ (8,855)
Purchase of property, plant and equipment	(32,650)	(25,423)	(57,653)
Cash paid for net investments in direct financing leases	(4,372)	(1,857)	(855)
Cash paid for acquisitions of investments	(4,517)	-	(463)
Proceeds from disposal of investments	-	-	137
Cash paid for other long-term assets	(265)	(4,003)	(351)
Net cash used in investing activities associated with continuing operations	(42,454)	(35,644)	(68,040)
Acquisition of discontinued operations (Note 5)	-	(7,492)	-
Purchase of property, plant and equipment – the Breweries	-	-	(322)
Purchase of property and equipment – Expobank	(1,128)	(802)	(30)
Net cash used in investing activities associated with discontinued operations	(1,128)	(8,294)	(352)
Total cash used in investing activities	(43,582)	(43,938)	(68,392)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Government grants received	18,579	-	484
Repayment of obligations under capital leases	(1,246)	(744)	(762)
Increase in short-term loans	18,848	24,268	32,232
Proceeds from long-term loans	986	10,572	4,438
Repayment of long-term loans	(2,039)	(554)	(2,475)
Proceeds from bonds payable	-	-	16,832
Dividends paid	(3,231)	(9,329)	-
Net cash provided by financing activities associated with continuing operations	31,897	24,213	50,749
Increase in short-term loans – the Breweries	-	-	721
Cash disposed of with discontinued operations	-	-	(5,175)
Net cash used in financing activities associated with discontinued operations	-	-	(4,454)
Total cash provided by financing activities	31,897	24,213	46,295
Total cash (used in) provided by operating, investing and financing activities associated with continuing operations	(3,861)	10,580	1,718
Impact of exchange rate differences on cash and cash equivalents associated with continuing operations	(369)	(109)	(300)
Cash paid for acquisition of discontinued operations	-	(7,492)	-
Net (decrease) increase in cash and cash equivalents associated with continuing operations:	(4,230)	2,979	1,418

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001 (CONTINUED)

(Amounts in thousands of U.S. dollars)

	1999	2000	2001
Total cash provided by (used in) operating, investing and financing activities associated with discontinued operations…………………………	763	6,096	(17,274)
Cash paid for acquisition of discontinued operations………..…………….	-	7,492	-
Impact of exchange rate differences on cash and cash equivalents associated with discontinued operations……………………………………	(1,325)	(415)	(212)
Net (decrease) increase in cash and cash equivalents associated with discontinued operations:..	(562)	13,173	(17,486)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS:	(4,792)	16,152	(16,068)
CASH AND CASH EQUIVALENTS, at beginning of period	11,627	6,835	22,987
Cash and cash equivalents associated with continuing operations, at end of period..	2,522	5,501	6,919
Cash and cash equivalents associated with discontinued operations, at end of period………...……………………………………………….	4,313	17,486	-
CASH AND CASH EQUIVALENTS, at end of period	$ 6,835	$ 22,987	$ 6,919
SUPPLEMENTAL INFORMATION ASSOCIATED WITH CONTINUING OPERATIONS:			
Income taxes paid...	$ 93	$ 3,161	$ 3,073
Interest paid………………………………………………………………	2,440	5,281	10,769
Income taxes offset with VAT receivables………………………………	2,337	1,416	2,752
Taxes other than income taxes offset with VAT receivables……………	$ 547	$ 303	$ 2,087

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

(Amounts in thousands of U.S. dollars, except share amounts)

	Common Stock (Note 1) Shares	**Amount**	**Share Premium Account**	**Retained Earnings**	**Total**
BALANCES at December 31, 1998 (unaudited)………………………...……………	34,552,000	$ 23,755	$ -	$ 15,343	$ 39,098
Net income…………………………...………….	-	-	-	5,786	5,786
Dividends declared…………………...…………	-	-	-	(3,231)	(3,231)
BALANCES at December 31, 1999……..………..	34,552,000	23,755	-	17,898	41,653
Net income………………………………..…….	-	-	-	21,383	21,383
Dividends declared…………………………...……	-	-	-	(9,330)	(9,330)
BALANCES at December 31, 2000……………..	34,552,000	23,755	-	29,951	53,706
Issue of shares (Note 4)……………………………	448,000	308	7,850	-	8,158
Net income……………………………………..…	-	-	-	31,848	31,848
Distribution to shareholders (Note 5)…………..…..	-	-	-	(8,701)	(8,701)
BALANCES at December 31, 2001………….…...	35,000,000	$ 24,063	$ 7,850	$ 53,098	$ 85,011

The dividends shown above are the dividend payments made by subsidiaries of the Group when they were separate legal entities and before the formation of Wimm-Bill-Dann Foods. Consequently, those dividends were determined based on the results of the individual entities and the ownership interest in those entities and not on the share capital of Wimm-Bill-Dann Foods. Wimm-Bill-Dann Foods has not paid any dividends for any of the periods presented.

For the years ended December 31, 1999, 2000 and 2001 comprehensive income equaled net income.

The accompanying notes to financial statements are an integral part of these statements.

1. General

The Group

On April 16, 2001, Wimm-Bill-Dann Foods LLC ("WBD Foods LLC") was formed by a group of individuals who owned shares in certain companies.

The group of individuals held shares in Lianozovo Dairy ("LMK"), PAG Rodnik ("Rodnik") and various juice production companies. As of April 16, 2001, LMK and Rodnik held shares, directly and indirectly, in the following subsidiaries and associates:

- Tsaritsino Dairy ("TsMK");
- Baby Dairy Products plant ("ZDMP");
- Siberian Moloko ("SM");
- Nizhny Novgorod Dairy ("MKN");
- Vladivostok Dairy ("VMK");
- Ramenski Dairy ("RMK");
- Karasuk Moloko ("KM");
- Molochny Kombinat ("MK");
- Bishkeksut;
- Moloko;
- Lianozovo-Samara;
- Trade Company Wimm-Bill-Dann;
- Wimm-Bill-Dann Priobretatel;
- Wimm-Bill-Dann Netherlands B.V.;
- Podmoskovnoe Moloko;
- Ramenskie Soki;
- Ramenskoye Moloko;
- Wimm Bill Dann (Israel) Limited;
- Wimm-Bill-Dann Agro ("WBD Agro");
- Nevsky Dairy Trade House ("NDTH");
- Fruit Rivers;
- Nectarin;
- Kiev Dairy KMMZ No.3; and
- Ufamolagroprom.

The shares of LMK and Rodnik were then exchanged for an ownership interest in WBD Foods LLC and as a result WBD Foods LLC became the majority shareholder of LMK and Rodnik.

Subsequent to the exchange, in October and December 2001, the juice production business, owned by the same group of individual shareholders described above, was transferred to Fruit Rivers LLC. This juice production business included the following entities:

- Grande-V;
- Fructola;
- Lianozovsky;
- Vitafruct;
- Food Production;
- EO ISSA.

Prior to WBD Foods LLC exchanging for shares of participation to acquire LMK and Rodnik and the transfer of the juice production companies, these companies were under the common control of a control group, being a group of shareholders who were shareholders in each of the above named entities, who held a majority of the shares of each of the above entities, and who were contractually bound by a pre-existing written agreement entered into in 1997, to vote as a single unit all of their shares.

As a consequence of the above exchange, those shareholders in each of the above named entities who were members of the control group, became the holders of all of the ownership interests of WBD Foods LLC.

Certain shareholders in each of the above named companies were not members of the control group and WBD Foods LLC did not give any shares of participation to them in exchange for their interest in the above named companies. Consequently, those shareholders outside of the control group retained a minority interest in certain entities controlled by WBD Foods LLC.

The acquisition by WBD Foods LLC of the above named companies, therefore, represents a reorganization under common control, and has been accounted for, for the periods presented, in a manner akin to a pooling. The financial statements, therefore, have been prepared on the basis that WBD Foods LLC existed for all of the periods presented and was the majority shareholder of the underlying entities named above for all the periods presented.

At the same time as WBD Foods LLC acquired the control group's interest in LMK and Rodnik for shares of participation, an additional share of participation in WBD Foods LLC was exchanged for additional shares in TsMK. That exchange has been accounted for as the acquisition of a minority interest in 2001.

On May 31, 2001, WBD Foods LLC was restructured into an open joint stock company and named Wimm-Bill-Dann Foods ("WBD Foods"). For all periods up to May 31, 2001, earnings per share were based on 34,552,000 shares, being the number of shares issued to the members of the control group upon the restructuring of WBD Foods LLC, and that number of shares has been treated as outstanding for all these periods.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The following entities are included in the consolidated and combined financial statements of WBD Foods, along with the direct and indirect interest at December 31, 2000 and 2001:

Name of company	Registered office	Legal form	Nature of business	Consolidated interests % 2000	Consolidated interests % 2001
LMK	Moscow, Russia	Open Joint Stock Company	Holding company for dairies, production and distribution of dairy products in Moscow region, renting out of equipment to juice production companies	81	96
TsMK	Moscow, Russia	Open Joint Stock Company	Production and distribution of dairy products in Moscow region, renting out of equipment to juice production companies	59	86
ZDMP	Moscow, Russia	Open Joint Stock Company	Production and distribution of dairy products in Moscow region	52	52
SM	Novosibirsk, Russia	Open Joint Stock Company	Production and distribution of dairy products in Novosibirsk region	64	75
MKN	Nizhny Novgorod, Russia	Open Joint Stock Company	Production and distribution of dairy products in Nizhny Novgorod region	77	90
VMK	Vladivostok, Russia	Open Joint Stock Company	Production and distribution of dairy products in Vladivostok region	75	88
RMK	Ramensk, Moscow Region, Russia	Open Joint Stock Company	Cooling of dairy for LMK, renting out of premises to juice production companies	84	91
KM	Karasuk, Novosibirsk Region, Russia	Closed Joint Stock Company	Drying of milk for dairies of the Group, production and distribution of dairy products in Karasuk	81	85

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Name of company	Registered office	Legal form	Nature of business	Consolidated interests % 2000	2001
MK	Timashevsk, Krasnodar Region, Russia	Open Joint Stock Company	Production and distribution of dairy products in Krasnodar region	78	92
Bishkeksut	Bishkek, Kyrgyzstan	Open Joint Stock Company	Production and distribution of dairy products in Kyrgyzstan	67	84
Moloko	Taldom, Moscow Region, Russia	Open Joint Stock Company	Production and distribution of dairy products in Taldom	27	42
Lianozovo-Samara	Samara, Russia	Limited Liability Company	Distribution of dairy products in Samara region	81	95
Rodnik	Moscow, Russia	Closed Joint Stock Company	Holding company for juice companies	100	100
EO ISSA	Moscow, Russia	Limited Liability Company	Holding company for juice companies	100	100
Trade Company Wimm-Bill-Dann	Moscow, Russia	Closed Joint Stock Company	Distribution of juices	100	100
Wimm-Bill-Dann Priobretatel	Moscow, Russia	Closed Joint Stock Company	Purchases of juice concentrate and packaging for juice production companies	100	100
Wimm-Bill-Dann Netherlands B.V.	Amsterdam, Netherlands	Closed Joint Stock Company	Exporting of juice concentrate and packaging for juice production companies	100	100
Lianozovsky	Moscow, Russia	Closed Joint Stock Company	Production of juices	100	100
Fructola	Moscow, Russia	Limited Liability Company	Production of juices	85	85
Vitafruct	Moscow, Russia	Limited Liability Company	Production of juices	100	100
Grande-V	Moscow, Russia	Closed Joint Stock Company	Production of juices	85	85

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Name of company	**Registered office**	**Legal form**	**Nature of business**	**Consolidated interests % 2000**	**2001**
Food Production	Moscow, Russia	Closed Joint Stock Company	Production of juices	100	100
Podmoskovnoe Moloko	Moscow, Russia	Closed Joint Stock Company	Production of juices	95	99
Ramenskie Soki	Moscow, Russia	Limited Liability Company	Production of juices	100	100
Ramenskoye Moloko	Moscow, Russia	Limited Liability Company	Production of juices	75	75
Wimm Bill Dann (Israel) Limited	Tel Aviv, Israel	Limited Liability Company	Distribution of juices in Israel	100	100
Expobank (*)	Moscow, Russia	Limited Liabilities Company	Banking services	68	-
Brewery Volga (*)	Nizhny Novgorod, Russia	Open Joint Stock Company	Renting out of equipment and premises to Volga-Invest	50	-
Volga-Invest (*)	Nizhny Novgorod, Russia	Closed Joint Stock Company	Production and distirbution of beer in Nizhny Novgorod region	81	-
Pivindustria Primoria (“PiP”) (*)	Vladivostok, Russia	Open Joint Stock Company	Production and distribution of beer in Vladivostok region	54	-
WBD Agro (**)	Moscow, Russia	Limited Liability Company	Purchases of raw materials	69	80
NDTH (**)	Saint-Petersburg, Russia	Limited Liability Company	Distribution of dairy products in Saint-Petersburg region	81	95
Wimm-Bill-Dann Irkutsk (**)	Irkutsk, Russia	Limited Liability Company	Distribution of juices	-	100
Wimm-Bill-Dann Vladivostok (**)	Vladivostok, Russia	Limited Liability Company	Distribution of juices	-	100
Wimm-Bill-Dann Rostov-on-Don (**)	Rostov-on-Don, Russia	Limited Liability Company	Distribution of juices	-	100

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Name of company	Registered office	Legal form	Nature of business	Consolidated interests % 2000	2001
Wimm-Bill-Dann Novosibirsk (**)	Novosibirsk, Russia	Limited Liability Company	Distribution of juices	-	100
Kiev Dairy KMMZ No.3 ("KMMZ")	Kiev, Ukraine	Open Joint Stock Company	Production and distribution of dairy products in Ukraine	-	58
Ufamolagro-prom	Ufa, Bashtorkostan, Russia	Open Joint Stock company	Production and distribution of dairy products in Bashtorkostan	-	46
Fruit Rivers (**)	Moscow, Russia	Limited Liability Company	Holding company for juice companies, production of juices	-	100
Nectarin (**)	Novosibirsk, Russia	Limited Liability Company	Production of juices	-	100
Rubtsovsky Dairy	Rubtsovsk, Altay Region, Russia	Closed Joint Stock Company	Production and distribution of dairy products in Rubtsovsk	-	95
Anninskoye Moloko	Anna, Voronezh Region, Russia	Limited Liability Company	Drying of milk, production and distribution of dairy products in Voronezh region	-	95
Dary Valdaya	Okulovka, Novgorod Region, Russia	Closed Joint Stock Company	Holding of water extraction license	-	93
Donskoy Dairy Trading House – Wimm-Bill-Dann (**)	Rostov-on Don, Rostov Region, Russia	Limited Liability Company	Distribution of dairy products in Rostov region	-	92

(*) These companies were reflected as discontinued operations for all the periods presented (Note 5).
(**) These companies were established by WBD Foods or its subsidiaries in 2001.

The above legal entities are collectively referred to herein as the Wimm-Bill-Dann Group ("the Group" or "WBD").

Background

Wimm-Bill-Dann Group was founded in 1992 when two shareholders of the controlling group of shareholders borrowed funds to lease a production line at a partially idle dairy plant and to purchase juice concentrates and packaging materials. In 1995 WBD acquired majority ownership in Lianozovo Dairy and in 1997, in the Baby Dairy Products plant, Tsaritsino Dairy and Ramenski Dairy. In 1998 and 1999, operations were expanded into the regions outside Moscow, and acquisitions were made in Novosibirsk, Nizhny Novgorod, Vladivostok and Krasnodar. In 2000 a further acquisition was made in Kyrgyzstan. In 2001 WBD acquired majority ownership interest in Ufamolagroprom, KMMZ, Rubtsovsky Dairy, Anninskoye Moloko and Dary Valdaya and established certain new companies as identified in the table above.

2. Russian Environment and Current Economic Situation

General

Russia continues to undergo substantial political, economic and social changes. As an emerging market, Russia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Furthermore, the Russian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation during August 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment, with results that include but are not limited to: a currency that is not freely convertible outside of the country; onerous currency controls; low liquidity levels for debt and equity markets; and continuing high rates of inflation.

The Russian environment has been characterized by risks, which are more significant than found in more mature free market economies. These risks include political, economic, social, legal, currency control and taxation risks.

Political – In recent years, Russia has been undergoing a substantial political transformation from communist party rule and a centrally controlled economy to a pluralist democracy and a market-oriented economy. The Russian political system is vulnerable to the population's dissatisfaction with reform, as well as to social and ethnic unrest.

Economic – Since August 17, 1998, Russia has experienced acute financial and economic distress. The Russian economy has been characterized by declining industrial production, significant inflation, rising unemployment, an unstable currency, high government debt relative to gross domestic product, high levels of inter-company debt and high levels of corporate insolvency.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Social – The political and economic changes in Russia in recent years have resulted in substantial social issues, including crime, labor and social unrest, and claims of official corruption.

Legal – The Russian legal system is characterized by (1) inconsistencies between and among laws, Presidential decrees, and Russian governmental, ministerial and local orders, decisions, and resolutions and other acts; (2) conflicting local, regional and federal rules and regulations; (3) the lack of judicial and administrative guidance on interpreting legislation; (4) the relative inexperience of judges and courts in interpreting legislation; and (5) a high degree of discretion on the part of governmental authorities.

Currency Control – The Central Bank of Russia regulates foreign currency transfers. In addition, the market in Russia for the conversion of rubles into other currencies is extremely limited.

Taxation – Generally, taxes payable by Russian companies are substantial and numerous, all of which are subject to frequent changes. See “Taxation” below.

The Group could be affected, for the foreseeable future, by the country's unstable economy. The consolidated and combined financial statements do not include any adjustment that may result from these uncertainties.

Currency of Consolidated and Combined Financial Statements

The consolidated and combined financial statements have been prepared using a stable currency, the U.S. dollar, as the majority of WBD's operations are in hyperinflationary economies. In respect of Wimm-Bill-Dann Netherlands B.V. and Wimm Bill Dann (Israel) Limited, the U.S. dollar has been used to prepare the financial statements as this is the functional currency.

Currency Exchange and Control

Foreign currencies, in particular the U.S. dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001, 2000 and 1999.

	Exchange Rate
December 31, 2001	30.14
December 31, 2000	28.16
December 31, 1999	27.00

As of April 15, 2002, the exchange rate was 31.17 rubles to 1 U.S. dollar.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

In the event the ruble continues to decline against the U.S. dollar, the Group could have difficulties in meeting its foreign currency denominated obligations.

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the ruble. Such regulations place restrictions on the conversion of rubles into hard currencies and establish requirements for conversion of hard currency sales to rubles.

Inflation

The Russian economy has been characterized by high rates of inflation. The following table summarizes the rate of inflation for the years ended December 31, 2001, 2000 and 1999.

	Inflation
2001	18.6%
2000	20.2%
1999	36.5%

The Group's principal inflation rate risk relates to the Group's ability to raise selling prices in line with the growth of dollar denominated purchases of raw materials caused by inflation.

Interest Rates

The Group's principal interest rate risks relate to the fact that interest rates on short-term borrowings are fixed in the range from 4.34% to 12.98% for U.S. dollar and EURO denominated loans and in the range from 8.33% to 21.00% for Russian ruble denominated loans (2000 - 6.89% to 13.00% for U.S. dollar and EURO denominated loans and in the range from 8.33% to 25.00% for Russian ruble denominated loans; 1999 - 8.56% to 13.00% for U.S. dollar and EURO denominated loans and from 13.08% to 44.00% for Russian ruble denominated loans) (see Note 17). Management has not entered into transactions designed to hedge against this interest rate risk.

Liquidity and Financial Resources

The Group's principal sources of funds have been revenues and short-term borrowings. The Group's plans do not anticipate the need for further significant financing but rather the rollover of such borrowings the Group had at December 31, 2001 (see Note 17).

Taxation

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often unclear or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the State Tax Service and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

In recent years, the Russian government has initiated revisions of the Russian tax system. Effective 1 January 1999, the first part of the Tax Code was enacted. Effective 1 January 2001, the second part of the Tax Code was enacted. The new tax system is generally intended to reduce the number of taxes, the overall tax burden on businesses and to simplify the tax laws.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While certain of the tax declarations relating to entities within the Group have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection. As of December 31, 2001 the tax declarations of the Group for the years 1998 through to 2001 were open and subject to review. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated and combined financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

3. Summary of Significant Accounting Policies

Accounting Principles

All companies maintain their accounting books and records in domestic currency based on domestic accounting regulations (DAR). The consolidated and combined financial statements have been prepared in order to present WBD’s financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and expressed in terms of U.S. dollars (see paragraph “Translation Methodology” below).

Basis of Presentation

The consolidated and combined financial statements have been prepared on the basis set out in Note 1.

All significant intercompany balances and transactions have been eliminated.

Minority interests in the net assets and net results of companies within the Group are shown under "Minority interests" in the accompanying consolidated and combined balance sheets and statements of operations.

Translation Methodology

Translation (remeasurement) of WBD's domestic currency denominated financial statements into U.S. dollars has been performed in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52 "Foreign currency translation", as they relate to hyperinflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars.

Monetary assets and liabilities have been translated at the period-end exchange rate. Non-monetary assets and liabilities have been translated at historical rates. Share capital has been translated at the date of registration of WBD Foods (see Note 1). Revenues, expenses and cash flows have been translated at the dates of respective transactions. Remeasurement differences resulting from the use of these rates have been accounted for as currency remeasurement gains and losses in the accompanying consolidated and combined statements of operations.

The Group's principle future operating cash flows will be generated in Russian rubles. As a result, future movements in the exchange rate between the ruble and U.S. dollar will affect the carrying value of the Group's assets and liabilities. Such changes may also affect the Group's ability to realize assets as represented in terms of U.S. dollars in the accompanying consolidated and combined financial statements.

Principles of Consolidation

The consolidated and combined financial statements of the Group include the companies listed in Note 1 that were controlled by the control group of shareholders before reorganization and are controlled by WBD Foods after reorganization (see Note 1 for description of reorganization). This control is determined when the control group of shareholders (before reorganization) or WBD Foods (after reorganization) own, either directly or indirectly, more than 50% of the voting rights of a company's share capital and are able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated and combined financial statements from the date of acquisition or to the date of disposal.

Investments in entities where WBD holds between 20% to 50% and can exercise significant influence but not control are accounted for under the equity method.

Management Estimates

The preparation of the consolidated and combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in WBD's bank accounts and short-term investments having original maturities of less than three months.

Allowance for Doubtful Accounts

WBD provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances.

Inventory

Inventories, including work-in-process, are valued at the lower of cost or market, after provision for obsolete items. Cost is the price paid or the consideration given to acquire the asset. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined on the basis of weighted average cost. For processed inventories, cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing conditions or location. It includes the applicable allocation of production fixed and variable overhead costs. Unrealizable inventory has been fully written off.

Value-Added Taxes

Value-added taxes (VAT) related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

VAT related to purchase transactions that are not currently reclaimable as of the balance sheet dates are recognized in the balance sheets on a gross basis.

Property, Plant and Equipment

Property, plant and equipment are stated at historic acquisition cost, less accumulated depreciation and impairment losses.

The acquisition cost of property, plant and equipment comprise its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated and combined statement of operations.

The carrying value of property, plant and equipment, as determined above, less expected residual value, is depreciated on a straight-line basis over the estimated useful lives of the related assets. The following depreciation periods, based on the estimated useful lives, have been applied:

Buildings	50 years
Machinery and equipment	8-20 years
Computer hardware	3-5 years
Other	5-10 years

Construction in progress comprises costs directly related to construction of property, plant and equipment plus an appropriate allocation of variable and fixed overheads that are incurred in construction. Construction in progress is depreciated once the property, plant and equipment are put into operation.

The Group capitalizes interest costs with respect to qualifying construction projects.

Impairment of Assets

The Group periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its goodwill and other long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets would not be recoverable, the Group would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) were less than the carrying amount of goodwill and other long-lived assets, the Group would recognize an impairment loss.

Capital Leases – Lessee's Accounting

The Group recognizes capital leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset (included in depreciation expense) as well as a finance expense (included in financial income and expenses, net) for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Capital Leases – Lessor' Accounting

The Group presents assets leased as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding and included into other operating expenses. Initial direct costs are deferred and expensed over the period in which the related revenue is recognized.

Goodwill

Goodwill represents the purchase price for businesses acquired in excess of the fair value of net assets identified. Goodwill is amortized on a straight-line basis over fifteen years for acquisitions made before June 30, 2001. Amortization expense during the years ended December 31, 1999, 2000 and 2001 amounted to $25, $25 and $455, respectively. Following the adoption of SFAS No. 142, Goodwill and Other Intangible Assets, the Company has not amortized goodwill on business combinations consummated after July 1, 2001, but tests for impairment on an annual basis and whenever indicators of impairment arise.

In cases where the fair value of the net assets acquired exceed the purchase price, the non-current assets acquired (excluding long-term investments in marketable securities) are reduced proportionately. Excess of net assets over costs (negative goodwill) is not recorded in the consolidated and combined financial statements unless all the identifiable noncurrent assets (excluding long-term investments in marketable securities) have been reduced to zero. If this circumstance arises, the remaining excess is recorded as a deferred credit and amortized to income over the period of expected benefit but not more than 40 years.

Investments

WBD holds interests in several Russian legal entities. All investments are made in companies that are not traded in open markets. Management periodically assesses realizability of the carrying values of the investments and provides valuation reserves, if required. All investments are valued at cost less any impairment in value and are included in non-current assets.

Revenue Recognition

Revenue is recognized on an accrual basis. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Sales are recognized, net of sales taxes and discounts, when goods are shipped to customers. At the time of shipment, in accordance with the Group's standard sales agreements, the title is transferred and the customer assumes the risk and rewards of ownership. This policy is consistent with the Russian Civil Code which states that legal title transfers when a products is shipped to a customer unless specifically overridden by the sales agreement.

The Group offers sales volume discounts based on individual customer volumes acquired in a previous month. An accrual for such discounts is made at the end of each accounting period and is recognized as a reduction of revenue in the consolidated and combined income statement.

During the year ended December 31, 2000, the Group adopted the provisions of Staff Accounting Bulletin No. 101 (SAB No. 101), Revenue Recognition in Financial Statements. The adoption of SAB No. 101 did not have an impact on the Group's revenue recognition.

Expense Recognition

Expenses are recognized during the period in which the related revenue is recognized or for other expenses, which are not related to identifiable revenue, in the period in which such expenses were incurred.

Shipping and Handling Costs

Shipping and handling costs incurred by the Group are reflected in sales and distribution expenses in the accompanying consolidated and combined statement of operations.

Government Grants

Government grants are recognized when related cash or assets are received. Government grants are deferred and amortized to income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying consolidated and combined financial statements. The amortization of government grants related to acquisition of property, plant and equipment is recognized in cost of sales where depreciation expense of the related long-term assets is recognized. The government grants related to bank loans interest expense are recognized in financial income and expenses, net where related interest expense is recognized.

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carryforwards using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets where it is unlikely that such assets will be realized. In accordance with SFAS No. 109, “Accounting for income taxes”, the Group does not recognize deferred tax for difference between the domestic currency equivalent of U.S. dollar cost and domestic tax basis of nonmonetary assets and for difference that result from indexing of nonmonetary assets for tax purposes as the U.S. dollar is the functional currency.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising and marketing costs for the years ended December 31, 1999, 2000 and 2001 were $10,814, $14,305 and $19,562, respectively and are reflected as a component of selling and distribution expenses in the accompanying consolidated and combined statements of operations (see Note 26).

Internal Software Development Costs

The Group capitalizes costs of materials, consultants, interest and payroll and payroll related costs for employees incurred in developing internal-use software dependent on the stage of the software development and the nature of the costs incurred. All costs incurred in the preliminary stage and the post development stage are expensed as incurred while all material costs during the application stage are capitalized.

Environmental Remediation Costs

The Group accrues for any losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study.

Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Earnings per Share

Earnings per common share for 1999 and 2000 have been determined using the number of WBD Foods' shares issued on May 31, 2001, to the members of the control group, as if those shares had been outstanding for all periods presented. Earnings per common share for 2001 have been determined based upon the weighted average number of shares in issue during this period, which is after the issuance of 448,000 WBD Foods' shares in April 2001 (Note 4). There are no potentially dilutive securities.

Fair Value of Financial Instruments

Currently in Russia there is no market for financial instruments. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term loans reported in the consolidated and combined balance sheets approximate fair values due to the short maturity of those instruments. Management is of the opinion that the carrying value of the Group's long-term loans approximates fair value.

Research and Development Costs

Research and development costs are expensed as incurred. The Group incurred $275, $407 and $519 of such costs during the year ended December 31, 1999, 2000 and 2001, respectively.

Comprehensive Income

WBD adopted SFAS No. 130, "Reporting Comprehensive Income", effective January 1, 1998. This statement establishes standards for the reporting and display of comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in financial statements. For the years ended December 31, 1999, 2000 and 2001 comprehensive income equaled net income.

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", requires that a business enterprise report financial and descriptive information about its reportable operating segments. WBD currently manages its business as two operating segments – dairy and juice production and distribution, and accordingly, reports segmental information on this basis.

New Accounting Pronouncements

SFAS No. 133, SFAS No. 137 and SFAS No. 138

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for derivative instruments and hedging activities". SFAS No.133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific accounting criteria are met. If a derivative instrument qualifies for hedge accounting, the gains or losses from the derivative may offset results from the hedged item in the statement of operations or other comprehensive income, depending on the type of hedge. To adopt hedge accounting, a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. In June 2000, the Financial Accounting Standards Board issued SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". This Statement addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS No.133 and this Statement amends the accounting and reporting standards of SFAS No.133 for certain derivative instruments and certain hedging activities.

SFAS No.137 delayed the effective date of SFAS No.133 to fiscal years beginning after June 15, 2000. A company may implement the statements as of the beginning of any fiscal quarter after issuance; however, SFAS No.133 cannot be applied retroactively.

The adoption on January 1, 2001 of SFAS No.133, SFAS No.137, and SFAS No.138 did not have a material impact on the financial position or the results of operations of the Group.

Accounting Pronouncements Issued But Not Yet Adopted

SFAS No. 141 and SFAS No. 142

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, APB Opinion No.16 although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. In addition, goodwill on prior business combinations will cease to be amortized. Had the company adopted SFAS No. 142 at January 1, 1999 the company would not have recorded a goodwill amortization charge relating to continuing operations of $25, $25 and $455 for the years ended December 31, 1999, 2000 and 2001, respectively.

The adoption of SFAS No.141 did not have a material impact on the financial position or the results of operations of the Group and SFAS No.142 is not expected to have a material impact on the financial position or the results of operations of the Group.

<u>SFAS No. 143</u>

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires the fair value of a liability for asset retirement obligations be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Group has not yet assessed the potential impact of the adoption of SFAS No. 143.

<u>SFAS No. 144</u>

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Whilst it supersedes APB Opinion 30 "Reporting the Results of operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" it retains the presentation of discontinued operations but broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. Under SFAS No. 144 there is no longer a requirement to allocate goodwill to long-lived assets to be tested for impairment. It also establishes a probability weighted cash flow estimation approach to deal with situations in which there are a range of cash flows that may be generated by the asset being tested for impairment. SFAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale.

SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of the Statement are generally to be applied prospectively. The Group currently has no plans to dispose of any operations and accordingly, does not anticipate that adoption of SFAS No. 144 will have a material impact on its results of operations or its financial position.

<u>EITF 00-22</u>

At the January 17-18, 2001 meeting, the Emerging Issues Task Force ("EITF") reached a consensus on EITF 00-22, Accounting for Point and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future. EITF 00-22 requires that any cash rebate or refund obligations are reflected as a reduction of revenue based on a systematic and rational allocation of the costs of honoring such rebates or refunds. This EITF consensus will not have an effect on the financial position or result of operations of the Group as the Group currently treats these costs in a manner consistent with the requirements of EITF 00-22.

<u>EITF 00-25</u>

At the April 18-19, 2001 meeting, the EITF reached a consensus on EITF 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products. The general consensus is that such consideration should be recorded as reduction of revenue unless specific criteria are met that identify a specific separable benefit from the consideration paid. This EITF addresses costs such as slotting fees, cooperative advertising and buydown programs. This EITF must be applied for periods beginning after December 15, 2001. The Group currently does not anticipate that adoption of EITF 00-25 will have a material impact on its results of operations or its financial position.

SFAS No. 145

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

The provisions of this Statement related to the rescission of Statement 4 applied in fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 will be effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002, with early application encouraged. The Group has not yet assessed the potential impact of the adoption of SFAS No. 145.

4. Businesses Acquired

Acquisition of minority interests

In April 2001, at the same time as the exchange of shares for WBD Foods LLC's shares of participation, an additional share of participation in WBD Foods LLC was exchanged for additional shares in TsMK. The acquisition of 9.6% of TSMK was in exchange for cash amounting to $1,156 and the share of participation in WBD Foods LLC, which was subsequently exchanged for 448,000 shares of WBD Foods OJSC at $18 per share, being the estimated market value per share of WBD Foods OJSC in April 2001, and resulted in a credit to the share premium account of $7,850. The acquisition resulted in goodwill of $6,881 which was amortized in the consolidated and combined statement of operations on a straight-line basis over a fifteen-year period. Change in minority interest related to this acquisition is presented as “Acquisitions by the Group from minority interests of subsidiaries” in Note 24.

In May 2000, WBD signed share purchase agreements with the Moscow City Government for the redemption of 15% of shares of LMK and TsMK. TsMK agreed to purchase 15% of LMK’s shares for $900 and to invest $8,150 of plant and equipment under an investment program. LMK agreed to purchase 15% of TsMK’s shares for $190 and to invest $5,500 of plant and equipment under an investment program. This agreement resulted from the Moscow City Government’s desire to sell its remaining interest in these entities and the importance of these entities to WBD’s business. By December 31, 2000, the purchase consideration had been paid and was recognized as an advance of $1,090. The investment of plant and equipment was made during the period July 2000 through June 2001. The Moscow City Government's 15% ownership in LMK and TsMK was treated in the accompanying consolidated and combined financial statements as a minority interest until July 2001 on the basis that transfer of ownership was dependent upon the fulfillment of the terms and conditions of the investment program which was completed in July 2001. The purchase price was primarily allocated to property, plant and equipment. The fair value of net assets acquired in excess of purchase price resulting from this allocation of $13,133 was subsequently recorded as a reduction against property, plant and equipment resulting in total property, plant and equipment acquired of approximately $1.1 million. Change in minority interest related to this acquisition is presented as "Acquisitions by the Group from minority interests of subsidiaries" in Note 24.

The Group made five other acquisitions of minority interests in certain subsidiaries during the years ended December 31, 1999, 2000 and 2001. The total cash consideration paid for these acquisitions was $369, $3,908 and $560 ($560 payable at December 31, 2001). The acquisitions made during 1999, 2000 and 2001 resulted in fair value of net assets acquired in excess of purchase price of $1,781, $2,846 and $2,695, respectively, which was recorded as a reduction against property, plant and equipment. Changes in minority interests related to these other acquisitions are presented as "Acquisitions by the Group from minority interests of subsidiaries" in Note 24.

<u>New acquisitions</u>

During March 2001, the Group acquired a 50.1% interest in Ufamolagroprom in exchange for total consideration of $5,500. This consideration was paid in the beginning of 2001.

The Group acquired an interest in six other companies during the years ended December 31, 1999, 2000 and 2001. The total cash consideration paid for these acquisitions was $281, $453 and $6,686 (consisting of: $2,448 which was paid at acquisition and $4,238 which was paid in prior years and included in long-term assets as of December 31, 1999 and December 31, 2000 (Note 15)).

The purchase price relating to the acquisitions in 2001 was primarily allocated to property, plant and equipment of $13,548, inventory of $3,910, trade receivables of $1,397, trade payables of $1,696 and short-term loans of $3,122. These acquisitions in total resulted in goodwill of $3,820, all of which was created prior to June 30, 2001.

The Group also acquired certain breweries in the year ended December 31, 2000 for a total consideration of $7,492. The Group has subsequently made a decision to dispose of these operations as described in Note 5.

All acquisitions discussed above have been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the dates of the acquisitions. For the acquisitions that resulted in excess of fair value of the assets acquired and liabilities assumed over the purchase price the difference has been deducted proportionately from non-current assets acquired (excluding long-term investments in marketable securities). For acquisitions that resulted in excess of purchase price over the fair value of the assets acquired and liabilities assumed such excess was recorded as goodwill. Results of operations for these acquisitions have been included in the accompanying consolidated and combined financial statements since their respective dates of acquisition. The proforma effect of these acquisitions is not material to the consolidated and combined results of operations.

During 1999, the Group also made an investment in certain other companies which were originally accounted for at cost method. The total amount paid for such investments was $4,517. The investments as of December 31, 1999, 2000 and 2001 are described in Note 14.

5. Discontinued Operations

During 1997, LMK acquired approximately 82% of the outstanding shares of Expobank for a total amount approximating $6.0 million. During 1998, LMK made an additional investment of $6.9 million in Expobank in connection with a capital contribution by major shareholders of Expobank. LMK's acquisition and investment in Expobank was made based on the economic condition in Russia during 1998 as a method of ensuring access to funding for the operations of WBD.

During 2000, in an attempt to diversify the investments of the shareholder group, LMK acquired ownership interest in certain breweries including Brewery Volga, Volga-Invest, PiP and Moskvoretzky Brewery (collectively referred to as the Breweries). The aggregate purchase price of these investments was approximately $7.5 million.

On December 8, 2000, the Board of Directors of LMK passed a general resolution to alienate LMK's interest in Expobank and the Breweries. This decision was based on the desire to focus on the core dairy and juice business and to cease operations in businesses that were dissimilar. At this time there was no determination as to the timing or method of such disposition.

On March 19, 2001, at the annual shareholders' meeting of LMK, a decision was made that any alienation of Expobank and the Breweries should be completed through a distribution of shares to certain of the controlling group of shareholders. These same individuals simultaneously transferred their direct ownership in TsMK to LMK. The exchange was completed in April 2001 and was recorded in WBD's consolidated and combined financial statements at that date as a distribution to shareholders.

The historical financial statements have been restated to reflect Expobank and the Breweries as discontinued operations for all periods presented. Operating results of the discontinued operations were summarized below. The amounts included income tax provisions based on the standalone results of Expobank and the Breweries. There have been no allocations of general and administrative corporate costs or interest expense related to the overall corporate credit facilities to the discontinued operations. As Expobank and the Breweries essentially functioned as independent entities no corporate costs were eliminated upon the discontinuance of such operations.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Expobank

	Year ended December 31, 1999	Year ended December 31, 2000	Period between January 1 and April 25, 2001
Interest income	$ 1,750	$ 2,839	$ 691
Interest expense	(632)	(1,604)	(258)
Provision for impairment	(3)	(380)	90
Net interest income (expenses)	1,115	855	523
Non-interest income (expenses)	3,031	4,403	1,142
Administrative expenses and other	(3,841)	(5,427)	(1,261)
Amortization of negative goodwill	681	681	170
Net income before income taxes and minority interest	986	512	574
Income taxes	(1,342)	(232)	(313)
Minority interest	200	11	(52)
Net (loss) income from discontinued operations	$ (156)	$ 291	$ 209

The Breweries

	Three months ended December 31, 2000	Period between January 1 and April 25, 2001
Sales	$ 4,948	$ 5,181
Cost of sales	(4,186)	(5,068)
Operating expenses	(968)	(90)
Operating loss	(206)	23
Financial income	681	(72)
Amortization of goodwill	(87)	(132)
Income before taxes and minority interest	388	(181)
Income taxes	(638)	(73)
Minority interest	97	148
Net (loss) from discontinued operations	$ (153)	$ (106)

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The assets and liabilities of the discontinued operations were summarized below. These balances reflect the payable to WBD for deposits made to Expobank, as these amounts remained outstanding upon the disposition of the business.

	Expobank			The Breweries		Total	
	December 31, 1999	December 31, 2000	April 25, 2001	December 31, 2000	April 25, 2001	December 31, 2000	April 25, 2001
Current assets:							
Cash and precious metals	$ 3,800	$ 7,834	$ 2,650	$ 97	$ 91	$ 7,931	$ 2,741
Due from Russian Central bank	1,239	11,580	4,210	-	-	11,580	4,210
Placement with banks	7,852	9,313	11,609	-	-	9,313	11,609
Trading securities	3,870	11,456	11,041	-	-	11,456	11,041
Loans to customers	3,431	10,585	12,708	-	-	10,585	12,708
Trade receivables	-	-	-	1,550	1,565	1,550	1,565
Inventory	-	-	-	5,909	7,883	5,909	7,883
Other	2,855	3,577	3,413	1,668	3,034	5,245	6,447
Total	23,047	54,345	45,631	9,224	12,573	63,569	58,204
Long-term assets:							
Property, plant and equipment	1,401	1,802	1,656	4,505	6,234	6,307	7,890
Goodwill	-	-	-	3,389	5,096	3,389	5,096
Trading securities	3,184	3,791	3,654	-	-	3,791	3,654
Loans to customers	3,076	1,844	2,214	-	-	1,844	2,214
Other	-	-	-	192	33	192	33
Total	7,661	7,437	7,524	8,086	11,363	15,523	18,887
Current liabilities:							
Trade accounts payable	-	-	-	1,347	2,854	1,347	2,854
Taxes payable	-	-	-	3,697	3,317	3,697	3,317
Deposits from banks	4,276	14,336	12,330	-	-	14,336	12,330
Deposits from WBD	1,282	900	1,027	-	-	900	1,027
Deposits from customers	13,535	32,103	26,448	-	-	32,103	26,448
Other	4,270	7,392	7,116	2,947	10,384	10,339	17,500
Total	23,363	54,731	46,921	7,991	16,555	62,722	63,476
Long-term liabilities:							
Debt	-	-	-	214	209	214	209
Promissory notes	-	107	107	-	-	107	107
Negative goodwill	5,450	4,768	4,598	-	-	4,768	4,598
Total	5,450	4,875	4,705	214	209	5,089	4,914
Net assets	$ 1,895	$ 2,176	$ 1,529	$ 9,105	$ 7,172	$ 11,281	$ 8,701

Positive goodwill that arose on the acquisition of the Breweries was amortized over 10 years. Negative goodwill, being the excess of the fair value of the net assets acquired over the purchase price, that arose on the acquisition of Expobank, after reduction of non-current assets (excluding long-term investments in marketable securities), was amortized over 10 years.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Increases and decreases in operating assets and liabilities of Expobank were summarized below.

	Year ended December 31,		Period between January 1 and April 25,
	1999	**2000**	**2001**
Increase in reserve deposit with Central Bank of Russia	$ (581)	$ (1,204)	$ 265
Increase in placements with banks	(3,015)	(1,429)	(2,340)
(Increase) decrease in trading securities	(5,600)	(8,193)	588
Decrease (increase) in loans to customers	5,629	(6,333)	(2,379)
Increase (decrease) in deposits from banks	2,165	10,060	(2,006)
Increase (decrease) in deposits from WBD	312	(382)	127
Increase (decrease) in deposits from customers	1,555	18,568	(5,655)
Increase (decrease) in promissory notes	2,792	766	(2,139)
Change in other operating assets and liabilities	(2,234)	2,125	911
Net increase (decrease) in operating assets and liabilities	$ 1,023	$ 13,978	$ (12,628)

There were no material cash flows from/used in operating activities, financing activities or investing activities of the Breweries since the date of acquisition to April 25, 2001.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2000 and 2001 were comprised as follows:

	2000	2001
Rubles	$ 4,016	$ 5,535
Hard currencies	567	1,064
Cash equivalents	918	320
Total cash and cash equivalents	$ 5,501	$ 6,919

7. Trade Receivables, net

Trade receivables as of December 31, 2000 and 2001 were comprised as follows:

	2000	2001
Trade receivables	$ 10,348	$ 25,852
Allowance for doubtful accounts	(355)	(581)
Trade receivables, net	$ 9,993	$ 25,271

Doubtful accounts expense during the years ended December 31, 1999, 2000 and 2001 amounted to $144, and $139 and $226, respectively, and was included in distribution and selling expenses in the accompanying consolidated and combined statements of operations.

The movement in the allowance for doubtful accounts for the years ended December 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
Balance, beginning of period	$ 72	$ 216	$ 355
Expense recorded through income	144	139	226
Utilization for write off of receivables	-	-	-
Balance, end of period	$ 216	$ 355	$ 581

(Amounts in thousands of U.S. dollars, unless otherwise stated)

8. Inventory, net

Inventory as of December 31, 2000 and 2001 was comprised as follows:

	2000	2001
Raw materials	$ 46,411	$ 63,270
Work in progress	822	3,679
Finished goods	8,244	22,734
Inventory provisions	-	(182)
Inventory, net	$ 55,477	$ 89,501

Obsolescence and net realizable reserves credit/(expense) during 1999, 2000 and 2001 amounted to $78, $427 and $(182), respectively, and was included in cost of sales in the accompanying consolidated and combined statements of operations.

9. Taxes Receivable

Taxes receivable primarily comprise VAT receivable.

10. Advances Paid

Advances paid as of December 31, 2000 and 2001 were comprised as follows:

	2000	2001
Advances to suppliers	$ 7,220	$ 13,069
Advance to the Moscow City Government for acquisition of LMK's and TsMK's shares (Note 4)	1,090	-
Total advances paid	$ 8,310	$ 13,069

Advances to suppliers mostly related to acquisition of raw materials and are realized within a period of up to six months from the respective balance sheet dates.

11. Net Investment in Direct Financing Leases

Commencing from 1999 the Group announced a program called "Dairy rivers of Russia" with the purpose of ensuring a steady and reliable source of milk. Under this program the Group acquired agricultural equipment and leased such equipment to several farms. These transactions were classified as direct financing leases. The lease agreements vary from three to eight years and provide a free of charge equipment transfer option at the end of the lease term. The lease receivables are denominated in U.S. dollars and Russian rubles. The lease has the option to settle receivable through the delivery of milk supplies to the Group based on a predetermined schedule. The settlement is based on milk prices that are either fixed in U.S. dollars in the range from $0.17 to $0.21 per kilogram, depending upon the quality, which approximates average cash prices at the inception of the lease, or is variable dependent upon prevailing market prices.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The following lists the components of the net investment in direct financing leases at December 31, 2000 and 2001:

	2000	2001
Total minimum lease payments to be received	$ 7,463	$ 5,918
Less: Allowance for uncollectibles	-	-
Net minimum lease payments receivables	7,463	5,918
Less: Unearned income	(1,722)	(670)
Net investment in direct financing leases	$ 5,741	$ 5,248
Current portion	1,069	1,172
Long-term portion	4,672	4,076

At December 31, 2001 total minimum lease payments for each of the five succeeding fiscal years are as follows:

Years ended December 31,	Payments
2002	$ 1,443
2003	1,227
2004	898
2005	890
2006	735
Thereafter	$ 725

12. Property, Plant and Equipment

The net book value of property, plant and equipment at December 31, 2000 and 2001 was comprised as follows:

	2000	2001
Buildings	$ 23,075	$ 35,819
Freehold machinery and equipment	121,842	130,922
Leasehold machinery and equipment	3,065	3,065

(Amounts in thousands of U.S. dollars, unless otherwise stated)

	2000	2001
Computer hardware	3,956	5,878
Other	9,307	17,018
Gross book value of property, plant and equipment	161,245	192,702
Accumulated depreciation	(63,860)	(83,387)
Advances paid for property, plant and equipment	2,010	8,755
Construction in progress and equipment for installation	16,604	36,939
Property, plant and equipment, net	$ 115,999	$ 155,009

WBD capitalized interest costs of $33, $321 and $493 during the years ended December 31, 1999, 2000 and 2001, respectively, with respect to qualified construction projects.

Gross book value of property, plant and equipment includes $3,065 in 1999, 2000 and 2001 which are leased assets. The accumulated depreciation related to these leased assets is $235, $471 and $706 as of December 31, 1999, 2000 and 2001, respectively.

Depreciation expense during the years ended December 31, 1999, 2000 and 2001 amounted to $7,781, $8,941 and $12,267, respectively. This included amortization of leased assets of $581, $235 and $235 for the years ended December 31, 1999, 2000 and 2001, respectively.

13. Goodwill

The Group's interest in the aggregate fair value of identifiable net assets of SM (acquired in 1998) and KMMZ, Ufamolagroprom, Dary Valdaya and TsMK (acquired in January – April 2001) was below the fair value of the consideration paid which resulted in goodwill. The goodwill is being amortized in the consolidated and combined statement of operations on a straight-line basis over a fifteen-year period. Following the adoption of SFAS No. 142 the Group will not amortize goodwill commencing from January 1, 2002 (see Note 3).

The movement of goodwill for the years ended December 31, 2000 and 2001 comprised:

Balance at December 31, 1999	958
Amortization	(25)
Balance at December 31, 2000	$ 933
Acquisitions	10,701
Amortization	(455)
Balance at December 31, 2001	$ 11,179

(Amounts in thousands of U.S. dollars, unless otherwise stated)

14. Investments

At December 31, 2000 and 2001 LMK had the following direct investments mainly in dairy production and distribution companies:

	2000		2001	
	Ownership	**Amount**	**Ownership**	**Amount**
Albumin	40.6%	$ 1,251	40.6%	$ 1,251
Samara Lakto	4.0%	296	4.0%	296
Sberbank	0.0%	151	0.0%	469
Other	various	295	various	303
Total long-term investments		$ 1,993		$ 2,319

Albumin, an open joint-stock company, is carried on the cost method as no significant influence is exercised by the Group as of December 31, 2000 and 2001, as evidenced by the Group not having access to OAO Albumin's operations, its financial statements and having no representation on the Board of Directors.

15. Other Assets

Other assets at December 31, 2000 and 2001 were comprised as follows:

	2000	2001
Advance to Alfa Bank for acquisition of KMMZ	$ 3,980	$ -
Other	288	339
Total other assets	$ 4,268	$ 339

In April 2000, LMK paid $4 million in cash to Alfa Bank in their role as agent broker for the acquisition of KMMZ. The ownership of these shares was not transferred to LMK until March 2001, as it was conditional on receiving Central Bank of Russia approval. As of March 29, 2001 LMK owned 60% of KMMZ and as a result, its net assets and results of operations have been consolidated from that date.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

16. Accrued Liabilities

Accrued liabilities at December 31, 2000 and 2001 were comprised as follows:

	2000	2001
Sales volume discounts accrual	$ 3,051	$ 1,297
Payroll related accruals	3,376	3,833
Other accruals	1,345	3,968
Total accrued liabilities	$ 7,772	$ 9,098

17. Short-term Loans and Long-term Loans

Short-term loans at December 31, 2000 and 2001 comprised the following:

	2000			2001		
	No. of loans	Amount	Weighted average interest rate	No. of loans	Amount	Weighted average interest rate
U.S. $ denominated						
Alfa Bank, interest payable at 12.98%, due February – April 2002	1	$ 9,022	13.00%	2	$ 12,982	12.98%
Vneshtorgbank, line of credit, interest payable at 12.00% due February 2002	-	-	-	1	5,500	12.00%
Commerzbank, line of credit, interest payable at one month LIBOR plus 5.25% (7.09% at December 31, 2001) due November 2002	-	-	-	1	3,000	7.09%
Credit Lyonnais Rusbank, interest payable at one month LIBOR plus 2.50% (4.34% at December 31, 2001) due November 2002	1	1,527	8.95%	1	654	4.34%
EURO denominated						
ING Bank (Eurasia), lines of credit, interest payable at EURIBOR plus 5.5% (8.81% at December 31, 2001) due September – November 2002	-	-	-	2	854	8.81%
Citibank T/O	1	541	11.45%	-	-	-
Commerzbank	1	108	6.89%	-	-	-
Sberbank	2	4,164	9.00%	-	-	-
Ruble denominated						
Sberbank, lines of credit, interest payable at 18.00% due April – October 2002	9	13,098	18.44%	13	20,557	18.00%

(Amounts in thousands of U.S. dollars, unless otherwise stated)

	2000			2001		
	No. of loans	**Amount**	**Weighted average interest rate**	**No. of loans**	**Amount**	**Weighted average interest rate**
Moscow City Government, interest payable at 33% of the Central Bank of Russia rate (8.33% at December 31, 2001) due March-April 2002	3	4,893	8.33%	3	10,596	8.33%
Sberbank, revolving lines of credit, interest payable at 18.00% due January 2002	2	3,932	18.00%	3	7,478	18.00%
Sberbank, interest payable at 18.63% due May – August 2002	7	16,098	18.57%	5	6,831	18.63%
MDM Bank, revolving lines of credit, interest payable at 20.00% due January – February 2002	-	-	-	2	4,644	20.00%
Vneshtorgbank, line of credit, interest payable at 18.50% due May 2002	-	-	-	1	3,981	18.50%
Rosdorbank, interest payable at 17.00% due January 2002	1	1,420	17.00%	2	3,318	17.00%
Rosdorbank, lines of credit, interest payable at 17.00% due February - March 2002	-	-	-	2	3,152	17.00%
Citibank T/O interest payable at 17.50% due September 2002	-	-	-	1	2,986	17.50%
MDM Bank, line of credit, interest payable at 20.00% due January 2002	-	-	-	1	2,322	20.00%
Moscow Industrial Bank ("MIB") interest payable at 21.00% due April 2002	-	-	-	1	664	21.00%
Alfa Bank, revolving lines of credit, interest payable at 18.20% due January - April 2002	-	-	-	3	51	18.20%
Other	10	1,771	23.33%	5	915	19.03%
<u>Other currency denominated</u>						
Other	-	-	-	4	1,443	28.28%
Total short-term loans		$ 56,574			$ 91,928	

<u>Borrowings with the Moscow City Government</u>

The Moscow City Government provided loans to WBD at beneficial rates under its program of supporting major food producing companies in Moscow. The rates are fixed at 33% of the Central Bank of Russia rate. The conditions of the loans are that WBD should use such loans for the purchase of dry milk. Management believes that it has complied with this condition. Bank of Moscow and MIB have guaranteed the Moscow City Government loans.

Borrowings with Sberbank

The Group has several lines of credit with Sberbank with a total limit of 627 million rubles (equivalent to $20,808 at December 31, 2001). Such lines of credit are not revolving. At December 31, 2001 the Group had $13 of unused borrowings under these lines of credit.

The Group has three revolving lines of credit with Sberbank with a total limit of 296 million rubles (equivalent to $9,821 at December 31, 2001). At December 31, 2001 the Group had $2,342 of unused borrowings under these lines of credit. These borrowings are available to the Group unless the Group has failed to meet its obligations on its current outstanding borrowings and unless the Group's average monthly turnover on its three current accounts with Sberbank falls below 650 million rubles ($21,566 at December 31, 2001), 182 million rubles ($6,038 at December 31, 2001), 9 million rubles ($299 at December 31, 2001), respectively.

Borrowings with Alfa Bank

The Group has three revolving lines of credit with Alfa Bank with a total limit of 378 million rubles (equivalent to $12,542 at December 31, 2001). At December 31, 2001, the Group had $12,491 of unused borrowings.

Borrowings with Rosdorbank and Rosbank

The Group has lines of credit with Rosdorbank and Rosbank with a total limit of 995 million rubles (equivalent to $33,013 at December 31, 2001). At December 31, 2001, the Group had $14,931 of unused borrowings.

Borrowings with Citibank T/O

The Group has a loan from Citibank T/O with an outstanding balance at December 31, 2001 amounting to 90 million rubles (equivalent to $2,986 at December 31, 2001). The loan agreement stipulates the following major events of default on which the outstanding loan principal and interest are to be repaid immediately:

- TsMK fails to meet its obligations on its current outstanding borrowings;
- TsMK's and/or LMK's average monthly turnover on their ruble accounts fall below 50% of the outstanding borrowings;
- LMK's statutory debt to assets ratio exceeds 40%.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Borrowings with Bashcreditbank

The Group has two lines of credit with Bashcreditbank with a total limit of 30 million rubles (equivalent to $996 at December 31, 2001). At December 31, 2001, the Group had $461 of unused borrowings.

Borrowings with Vneshtorgbank

The Group has two lines of credit with Vneshtorgbank with a total limit $5,500 and 120 million rubles, respectively. At December 31, 2001 the Group had no unused borrowings under these credit lines. The credit line agreements stipulate the following major events of default on which the outstanding loans principal and interest are to be repaid immediately or on which Vneshtorgbank can demand an increase in the amount of pledged assets or additional guarantees:

– any statutory quarterly revenues of LMK and TsMK fall below 110% of the revenues in the comparative quarter of the previous year;
– total amount of borrowings are above 40% of the total statutory liabilities and equity of LMK and TsMK.

Borrowings with MDM bank

The Group has two revolving lines of credit with MDM bank with a total limit 140 million rubles (equivalent to $4,645 at December 31, 2001). At December 31, 2001 the Group had no unused borrowings under these lines of credit.

Long-term loans at December 31, 2000 and 2001 comprised the following:

	2000			2001		
	No. of loans	**Amount**	**Weighted average interest rate**	**No. of loans**	**Amount**	**Weighted average interest rate**
U.S. $ denominated						
Alfa Bank, interest payable at 13.15% due April 2002	2	$ 3,980	13.15%	2	$ 3,980	13.15%
ING Bank (Eurasia), lines of credit, interest payable at one month LIBOR plus 1.68% (3.54% at December 31, 2001) due November – December 2006	-	-	-	3	2,139	3.54%

(Amounts in thousands of U.S. dollars, unless otherwise stated)

	2000			2001		
	No. of loans	**Amount**	**Weighted average interest rate**	**No. of loans**	**Amount**	**Weighted average interest rate**
Credit Lyonnais Rusbank, lines of credit, interest payable at one month LIBOR plus 2.50% (4.34% at December 31, 2001) due beginning January 2001 through November 2002 by quarterly installments	2	772	8.95%	2	270	4.34%
<u>EURO denominated</u>						
ING Bank (Eurasia), line of credit, interest payable at three months EURIBOR plus 2.10% (5.41% at December 31, 2001) due by June 2005 by quarterly installments	1	2,696	7.39%	1	2,015	5.41%
Raiffeisenbank, line of credit, interest paid at three months LIBOR plus 2.00% (5.31% at December 31, 2001) due October 2003	-	-	-	1	1,105	5.31%
Citibank T/O, interest payable at three months LIBOR plus 1.50% (4.81% at December 31, 2001) due May 2003 by quarterly installments	1	758	7.63%	1	479	4.81%
Commerzbank, line of credit, interest payable at three months EURIBOR plus 2.00% (5.31% at December 31, 2001) due July 2005 by quarterly installments	1	400	6.89%	1	379	5.31%
<u>Ruble denominated</u>						
MIB, line of credit, interest payable at 26.00% due April 2003 by monthly installments	1	2,384	26.00%	1	1,121	26.00%
Other	3	199	10.00%	2	515	16.05%
<u>Other currency denominated</u>						
Aval, interest payable at 27.00 % due May - August 2003	-	-	-	3	1,259	27.00%
		11,189			13,262	
Less current portion of long-term loans		(2,475)			(8,099)	
Total long-term loans		$ 8,714			$ 5,163	

Borrowings with Credit Lyonnais Rusbank

The Group has two lines of credit with Credit Lyonnais Rusbank with a limit of $770. At December 31, 2001, the Group had $339 of unused borrowings under these revolving lines of credit. These borrowings are available to the Group for acquisition of machinery and equipment.

Borrowings with ING Bank (Eurasia)

The Group has four lines of credit with ING Bank (Eurasia) with a limit of $5,122 and EURO 4 million (equivalent to $3,726 at December 31, 2001). At December 31, 2001, the Group had $4,157 of unused borrowings under these lines of credit.

Borrowings with Raiffeisenbank and Commerzbank

The Group has two lines of credit with Raiffeisenbank and Commerzbank with a limit of EURO 2.7 million (equivalent to $2,415 at December 31, 2001). At December 31, 2001, the Group had $301 of unused borrowings under these lines of credit.

Borrowings with MIB

The Group has a line of credit with MIB with a limit of 73 million rubles (equivalent to $2,405 at December 31, 2001). At December 31, 2001, the Group had $190 of unused borrowings under this line of credit. These borrowings are available to the Group for acquisition of machinery and equipment.

Borrowings with Citibank T/O

The Group has a loan with Citibank T/O. The loan agreement stipulates immediate repayment if the Group's average monthly turnover on its current account with Citibank T/O falls below 900 million rubles (equivalent to $29,861 at December 31, 2001).

Guarantees

Certain of the Group's loans are guaranteed by other parties as follows:

- Citibank T/O loan, in the amount of $479, was guaranteed by Commerzbank;
- ING-Bank (Eurasia) line of credit, in the amount of $1,133, was guaranteed by a certain supplier and by ING bank N.V.;
- Citibank loan, Commerzbank line of credit and ING-Bank (Eurasia) lines of credit were guaranteed by certain suppliers.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Maturity of long-term loans

Aggregate maturity of long-term loans outstanding at December 31, 2001 is as follows:

Year ended December 31, 2002	$ 8,099
Year ended December 31, 2003	3,253
Year ended December 31, 2004	855
Year ended December 31, 2005	693
Year ended December 31, 2006 and after	362
Total maturity of long-term loans	$ 13,262

Collateral

Certain of the Group's assets served as collateral for the loans from Sberbank, Rosdorbank, Moscow City Government, Alfa Bank, MIB and others.

At December 31, 2000 and 2001 the assets served as collateral consisted of the following:

- Inventory in the amounts of $4,341 and $30,148, respectively,
- Property, plant and equipment with a net book value of $35,183 and $83,211 respectively and,
- Common outstanding shares of KMMZ with the cost of $3,980.

18. Bonds Payable

On November 1, 2001 LMK issued unsecured ruble denominated bonds amounting to 500,000,000 rubles ($16,589 at December 31, 2001 exchange rate). The bonds are unconditionally guaranteed by WBD Foods and mature 1,093 days from November 1, 2001. Interest is payable every three months until maturity. For the first year, interest was fixed at 22.75% and is to be subsequently adjusted depending upon market conditions and market rates of interest. LMK is obliged to redeem a bond if its holder notifies LMK of its intention to redeem the bond between October 10, 2002 and October 24, 2002. Management believes that the likelihood of any bondholders requesting redemption directly from LMK during this two week period is remote.

In November 2001, Bishkeksut issued unsecured som denominated bonds amounting to 11,585,000 Kyrgyz soms ($243 at December 31, 2001 exchange rate).

(Amounts in thousands of U.S. dollars, unless otherwise stated)

19. Capital Leases

WBD leased production equipment under capital leases from Tetra Laval Credit AB and Tetra Laval Finance and Trading Gmbh for 3 years with a purchase option at the end of the lease term. The lease payables are denominated in U.S. dollars and German marks.

The following is a schedule of the total future minimum lease payments under capital leases as of December 31, 2000 and 2001:

	2000	2001
Payable in 2001	$ 857	$ -
Payable in 2002	-	95
Total future minimum lease payments	$ 857	$ 95

20. Other Long-term Payables

Other long-term payables primarily represent payables for property, plant and equipment over the next ten years and road users tax payables, income tax payable and advertising tax payable over the next three years. Aggregate maturity of other long-term payables outstanding at December 31, 2001 is as follows:

Years ended December 31,	
2002	$ 4,118
2003	4,870
2004	4,191
2005	3,854
2006	3,675
Thereafter	1,396
Total maturity of other long-term payables	22,104
Less current portion of other long-term payables	(4,118)
Total other long-term payables	$ 17,986

(Amounts in thousands of U.S. dollars, unless otherwise stated)

21. Income Tax

WBD's provision for income taxes for the years ended December 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
Current provision	$ 3,627	$ 9,656	$ 11,993
Deferred (benefit) charge	(1,181)	(88)	2,173
Total provision for income taxes	$ 2,446	$ 9,568	$ 14,166

WBD's statutory income tax rate before 1 April 1999 was 35%. From April 1, 1999, WBD's statutory income tax rate was 30% as a result of changes in Russian legislation. The deferred tax credit resulting from the change in the tax rate amounted to $84. From January 1, 2001, WBD's statutory income tax rate increased to 35%. The deferred tax net asset increased by $51 as the result of such change in the statutory tax rate. From January 1, 2002, WBD's statutory income tax rate will be 24% as a result of further changes in Russian legislation. The actual provision for income taxes reconciled to WBD's theoretical tax provision at statutory rate is as follows for the respective periods ended:

	1999	2000	2001
Income before provision for income taxes	$ 8,971	$ 32,266	$ 49,873
Statutory tax rate	30%	30%	35%
Theoretical tax provision at statutory rate	2,691	9,680	17,455
Expenses not deductible for Russian statutory taxation purposes	7,930	7,768	7,055
Profit tax privileges	(7,510)	(7,963)	(11,943)
U.S. GAAP remeasurement gain not income for domestic statutory taxation purposes	(1,103)	(335)	(869)
Deferred tax liability resulting from tax effect of investment program	-	619	3,436
Deferred tax credit resulting from decrease in statutory tax rate to 24%	-	-	(546)
Differences in statutory tax rate and future tax rate (24%)	-	-	(1,678)
Other	438	(201)	1,256
Actual provision for income taxes	$ 2,446	$ 9,568	$ 14,166

Profit tax privileges are investment and social infrastructure maintenance credits, small enterprises benefit and baby food products benefit.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Small enterprises income tax benefit in 1999, 2000 and 2001 amounted to $4.3 million, $6.0 million and $8.6 million, respectively which represents $0.12, $0.17 and $0.25 per share, respectively. Under the current income tax legislation small enterprises involved in certain activities, such as food processing, are exempt from income taxes for the first two years of operations and in the third and forth years, income taxes are levied at a rate of 25% and 50% of the income tax rate, respectively. The income tax benefit for small enterprises has been abolished from January 1, 2002, except that the benefit will continue to be available to enterprises that were established before July 1, 2001. Starting from January 1, 2002 WBD's juice production will be primarily concentrated in two small enterprises, Fruit Rivers and Nectarin, which were registered in March and April 2001, respectively.

Following the change in the income tax legislation, the baby food products tax benefit, investment and social infrastructure maintenance credits have been abolished from January 1, 2002. However, certain expenses which had limited income tax deductibility in 2001 will become deductible in 2002 and in the following years. These expenses are advertising expenses, insurance expenses, interest expenses and other. Management believes that there will be a net beneficial impact of such changes on the Group in 2002.

Unused credits, such as profit tax privileges, may not usually be carried forward under Russian tax legislation. Accordingly, tax credits are reflected in WBD's consolidated and combined financial statements only to the extent, and in the year in which the credits are utilized.

Temporary differences between the statutory accounts and these consolidated and combined financial statements give rise to the following deferred tax assets and liabilities at December 31, 2000 and 2001:

	2000	2001
Deferred tax assets/(liabilities) arising from tax effect of:		
Salary related accruals	$ 944	$ 633
Sales volume discount accruals	862	311
Other accrued liabilities	1,047	1,562
Other	141	143
Capital leases	(2,070)	(1,650)
Investment programs	(619)	(2,738)
Other	-	(130)
Net deferred tax asset (liability)	$ 305	$ (1,869)
Analyzed as to:		
Deferred tax asset	2,785	2,060
Deferred tax liability	2,480	3,929

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The deferred tax liability arises from the difference in treatment of the investment programs related to the 15% additional acquisition of LMK and TsMK in the Russian statutory books of accounts and in U.S. GAAP (see Note 4). In the statutory books of accounts the companies recognized the plant and equipment received under the investment programs as deferred income which is amortized over the useful life of the related assets and which is taxable under the existing statutory tax regulations. In contrast, under U.S. GAAP the companies recognized the plant and equipment as additional paid in capital.

22. Government Grants

In 1993-1999 ZDMP received capital grants from the Russian and Moscow Governments. These grants related to the acquisition of property, plant and equipment for baby food production and are recognized in the consolidated and combined statements of operations in the period in which the depreciation expense on the related property, plant and equipment is incurred. The conditions of the grants are that ZDMP must continue to use the related property, plant and equipment for baby food production. Management believes that it has complied with this condition and will continue to comply in the future.

The movement in capital government grants during the years ended December 31, 2000 and 2001 comprised:

Balance at December 31, 1999	$ 19,741
Amortization	(1,787)
Balance at December 31, 2000	17,954
Amortization	(2,545)
Grant received	484
Balance at December 31, 2001	$ 15,893

Grants are amortized once the related property, plant and equipment are put into operation.

During the year ended December 31, 2001 WBD received operating grants from the Russian Government and Moscow City Government in the amount of $1,524. These grants related to interest rates on loans used for acquisition of milk and other raw materials, and are recognized in the consolidated and combined statements of operations in the period in which the related interest expense is incurred. The grants were provided at two thirds of the Central Bank of Russia interest rate (equating to 16.667% at December 31, 2001) or in a fixed amount approximating to half of interest expense. The conditions of the grants are that WBD must use the related loans received from Russian banks for the acquisition of milk and other raw materials and the loans should be repaid upon maturity and no later than April 2002. Management believes that it has complied with these conditions.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

23. Shareholders' Equity

In accordance with Russian, Ukrainian and Kyrgyzstan statutory accounting regulations, earnings available for dividends are limited to profits, denominated in domestic currency, after certain deductions. At December 31, 2000 and 2001 retained earnings from continuing operations which are distributable under statutory legislation totaled 1,179 million rubles ($39 million translated at the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001) and 2,325 million rubles ($77 million translated at the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001), respectively.

24. Minority Interest

The movement in minority interest during the years ended December 31, 2000 and 2001 comprised:

Balance at December 31, 1999	$ 33,944
Acquisitions by the Group from minority interests of subsidiaries	(1,811)
Acquisitions	4,289
Minority interest share in income from continuing operations	1,453
Minority interest in net loss of discontinued operations	(108)
Balance at December 31, 2000	37,767
Acquisitions by the Group from minority interests of subsidiaries	(20,788)
Acquisitions	5,119
Minority interest share in income from continuing operations	3,962
Minority interest in net loss of discontinued operations	(96)
Minority interest related to discontinued operations	(2,588)
Balance at December 31, 2001	$ 23,376

25. Cost of Sales

Cost of sales for 1999, 2000 and 2001 were comprised of the following:

	1999	2000	2001
Raw materials	$ 267,892	$ 319,344	$ 438,360
Personnel	9,677	11,939	20,103
Depreciation	6,767	7,993	10,609
Utilities	3,069	3,457	8,734
Other	6,271	6,344	15,184
Total cost of sales	$ 293,676	$ 349,077	$ 492,990

(Amounts in thousands of U.S. dollars, unless otherwise stated)

26. Selling and Distribution Expenses

Selling and distribution expenses for 1999, 2000 and 2001 were comprised of the following:

	1999	2000	2001
Advertising and marketing	$ 10,814	$ 14,305	$ 19,562
Personnel	5,038	8,982	15,978
Transportation	3,110	6,743	17,144
Warehouse	2,110	2,088	2,408
Other	1,306	2,020	7,121
Total selling and distribution expenses	$ 22,378	$ 34,138	$ 62,213

27. General and Administrative Expenses

General and administrative expenses for 1999, 2000 and 2001 were comprised of the following:

	1999	2000	2001
Personnel	$ 9,312	$ 14,756	$ 29,016
Road users tax	8,678	11,633	6,771
Social infrastructure and maintenance tax	4,543	6,936	-
Advertising tax and other taxes	580	1,211	1,681
Depreciation	689	575	1,111
Audit, consulting and legal fees	681	1,222	2,170
Other	4,783	6,692	13,712
Total general and administrative expenses	$ 29,266	$ 43,025	$ 54,461

(Amounts in thousands of U.S. dollars, unless otherwise stated)

28. Financial Income and Expenses, net

Financial income and expenses, net for 1999, 2000 and 2001 were comprised of the following:

	1999	2000	2001
Currency remeasurement gains	$ (3,675)	$ (1,116)	$ (2,483)
Interest expense	2,563	5,638	11,126
Bank charges	1,550	1,100	2,110
Finance lease expense	159	96	50
Other financial (income) expenses	(327)	(54)	(222)
Total financial income and expenses, net	$ 270	$ 5,664	$ 10,581

29. Pension Costs

During 1999 and 2000 WBD contributed to the Russian Federation state pension scheme ("Pension fund") in respect of its employees. WBD's pension scheme contribution amounted to 28% of employees' gross salaries. Starting from January 1, 2001 all social contributions (including contributions to the Pension fund) were substituted with a unified social tax ("UST") calculated by WBD by the application of a regressive rate from 35.6% (applied to the part of the annual gross salary below 100 thousand rubles or $3 translated at the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001) to 5% (applied to the part of the annual gross salary above 600 thousand rubles or $20 translated at the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001) to the annual gross remuneration of each employee. WBD allocates UST to three social funds (including the Pension fund) where the rate of contributions to the Pension fund vary from 28% to 5% respectively depending on the annual gross salary of each employee. The Russian Federation state pension scheme contributions are expensed as incurred. Pension costs amounted to $2,072, $4,290 and $8,270 in 1999, 2000 and 2001, respectively. WBD has no other pension obligations.

30. Segment Information

The Group's major reportable continuing business segments are dairy and juice segments. They are strategic business units that produce and offer distinctive products, i.e. fruit juices, nectars and juice based drinks in the juice segment and sterilized and pasteurized dairy, yogurts, dairy desserts and other dairy products in the dairy segment.

WBD's accounting policy for segments is the same as those described in the summary of significant accounting policies. Management evaluates segment performance based on segment profit or loss before minority interests and deferred taxes. Transfers between segments are made at values that approximate market values.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

In the final quarter of 2001 the Group reallocated various expenses between its dairy and juice businesses. As a result, the segment information for 1999 and 2000 has been restated for comparative purposes.

Continuing Operating Segment - Year ended December 31, 1999

	Dairy	**Juice**	**Other**	**Corporate assets/ expenses**	**Common assets/ expenses**	**Consolidated and combined**
Total sales	$ 266,760	$ 107,191	-	-	-	$ 373,951
Intersegment sales	(10,054)	(6,219)	-	-	-	(16,273)
Sales to external customers	256,706	100,972	-	-	-	357,678
Cost of sales	(214,569)	(78,463)	-	-	(644)	(293,676)
Gross profit	42,137	22,509	-	-	(644)	64,002
Operating expenses	(29,883)	(16,378)	-	(8,500)		(54,761)
Operating income	12,254	6,131	-	(8,500)	(644)	9,241
Financial income and expenses, net and current provision for income taxes	(4,101)	204	-	-	-	(3,897)
Net segment profit	$ 8,153	$ 6,335	-	(8,500)	(644)	$ 5,344
Expenditure for segment property, plant and equipment	$ 26,363	$ 1,756	623	109	3,799	$ 32,650

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Continuing Operating Segment - Year ended December 31, 2000

	Dairy	Juice	Other	Corporate assets/ expenses	Common assets/ expenses	Inter-segment receivables	Consolidated and combined
Total sales	$ 332,013	$ 141,644	-	-	-	-	$ 473,657
Intersegment sales	(6,531)	(1,715)	-	-	-	-	(8,246)
Sales to external customers	325,482	139,929	-	-	-	-	465,411
Cost of sales	(250,015)	(98,228)	-	-	(834)	-	(349,077)
Gross profit	75,467	41,701	-	-	(834)	-	116,334
Operating expenses	(45,945)	(23,004)	-	(9,455)	-	-	(78,404)
Operating income	29,522	18,697	-	(9,455)	(834)	-	37,930
Financial income and expenses, net and current provision for income taxes	(14,308)	(1,012)	-	-	-	-	(15,320)
Net segment profit	$ 15,214	$ 17,685	-	(9,455)	(834)	-	$ 22,610
Segment total assets	$ 175,752	$ 89,619	2,100	1,781	4,228	(38,441)	$ 235,039
Expenditure for segment property, plant and equipment	$ 20,091	$ 2,231	1,477	-	1,624	-	$ 25,423

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Continuing Operating Segment – year ended December 31, 2001

	Dairy	Juice	Other	Corporate assets/ expenses	Common assets/ expenses	Inter-segment receivables	Consolidated and combined
Total sales	$ 494,682	$ 192,158	-	-	-	-	$ 686,840
Intersegment sales	(9,230)	(2,994)	-	-	-	-	(12,224)
Sales to external customers	485,452	189,164	-	-	-	-	674,616
Cost of sales	(374,884)	(117,496)	-	-	(610)	-	(492,990)
Gross profit	110,568	71,668	-	-	(610)	-	181,626
Operating expenses	(66,360)	(38,186)	-	(16,626)	-	-	(121,172)
Operating income	44,208	33,482	-	(16,626)	(610)	-	60,454
Financial income and expenses, net and current provision for income taxes	(17,384)	(5,190)	-	-	-	-	(22,574)
Net segment profit	$ 26,824	$ 28,292	-	(16,626)	(610)	-	$ 37,880
Segment total assets	$ 214,718	$ 121,839	1,967	5,384	23,220	(14,412)	$ 352,716
Expenditure for segment property, plant and equipment	$ 30,801	$ 9,784	88	4,476	12,504	-	$ 57,653

Reconciliation between net segment profit and consolidated and combined income from continuing operations for the years ended December 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
Total net segment profit	$ 5,344	$ 22,610	$ 37,880
Minority interest	(583)	(1,453)	(3,962)
Deferred tax benefit (charge)	1,181	88	(2,173)
Consolidated and combined income from continuing operations	$ 5,942	$ 21,245	$ 31,745

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Reconciliation between segment total assets and consolidated and combined total assets was at December 31, 2000 and 2001 as follows:

	2000	2001
Segment total assets	$ 235,039	$ 352,716
Current assets from discontinued operations	63,569	-
Long-term assets from discontinued operations	15,523	-
Consolidated and combined total assets	$ 314,131	$ 352,716

For the years ended December 31, 1999, 2000 and 2001, approximately 99%, 99% and 97% of sales were generated in and sold to customers in Russia, respectively. As of December 31, 2000 and 2001, the long lived assets of the group were primarily located in Russia.

The financial data above does not reflect information by WBD's separate products and sales as it is impracticable to produce this information.

The majority of the Group's packaging materials is purchased from one supplier. There can be no assurance that, in the event of a loss of this supplier or unfavorable developments in the business practices of this supplier, substantially all of the current levels of packaging materials could be purchased at comparable, or nearly comparable, prices on the international market.

31. Related Parties

Trinity-Negus

During 1999, 2000 and 2001 the Group engaged in material transactions with Trinity-Negus ("Trinity"), a private security company, which is owned by members of the control group of shareholders. Trinity provided the companies of the Group with security services in 1999, 2000 and 2001 amounting to approximately $1,569, $1,721 and $2,206 respectively. As of December 31, 2000 and 2001 accounts payable to Trinity in respect of security services amounted to $173 and $201, respectively.

Wimm-Bill-Dann Trans

During 1999, 2000 and 2001 the Group received transportation services from Wimm-Bill-Dann Trans ("WBD Trans"), a closed joint stock company, which is the Group's investee, amounting to approximately $788, $1,870 and $5,251, respectively. As of December 31, 2000 and 2001 advances paid to WBD Trans in respect of transportation services amounted to $24, and $190, respectively.

Avto-40

During 1999, 2000 and 2001 the Group received transportation services from Avto-40, a closed joint stock company, which is controlled by members of the control group of shareholders, amounting to approximately $126, $164 and $61, respectively. As of December 31, 2000 and 2001 there were no outstanding balances with Avto-40.

Adonis

During 2001, the Group paid an advance for construction of an administrative building amounting to $4,140 to Adonis, a limited liability company, which is controlled by members of the control group of shareholders.

Poultry Factory Gorki-2

During 2001 the Group purchased milk from Poultry Factory Gorki-2, a closed joint stock company, which is controlled by members of the control group of shareholders, amounting to approximately $580. As of December 31, 2001 accounts payable to Poultry Factory Gorki-2 in respect of milk received amounted to $10.

The Breweries

As at December 31, 2001 the Group had loans receivable from Brewery Volga, Volga-Invest and Moskvoretzky Brewery ("the Breweries") amounting to $665. These loans are interest free, ruble denominated and mature on December 31, 2001. The loans were provided in early 2001 and before the alienation of the Breweries (see Note 5) and are included in other current receivables.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

32. Commitments and Contingencies

Property, plant and equipment purchase commitments

As of December 31, 2001, contracted expenditures for the purchase of property, plant and equipment in the period subsequent to December 31, 2001 were as follows:

Years ended December 31,	
2002	$ 7,076
2003	2,466
2004	2,631
2005	2,154
2006	2,013
Thereafter	5,093
Total commitments	21,433
Less interest expenses	(2,284)
Total commitments at present value	$ 19,150

Insurance

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation. The Group does not have insurance coverage for its major plant facilities, business interruption, product liability or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

As of December 31, 2001, the Group is unaware of any asserted or unasserted claims.

Taxation

During 1999, 2000 and 2001 WBD used certain tax planning initiatives to reduce its operating taxes. These initiatives may be challenged by the Russian tax authorities. WBD believes that the tax savings to the Group for 1999, 2000 and 2001 in respect of these initiatives amounted to approximately $6.7 million, $8.0 million and $5.9 million, respectively. Should the Russian tax authorities question these initiatives and prove successful in their claim, they would be entitled to recover these amounts, together with penalties amounting to 20% of such amounts and interest at the rate of 1/300 of the Central Bank of Russia rate (equating to 0.083% at December 31, 2001) for each day of delay for late payment of such amounts. Management will vigorously defend any claims that these initiatives are contrary to Russian tax law.

Environmental Remediation Costs

The Group is not aware of any potential environmental claims and therefore does not have any liabilities associated with such costs recorded as of December 31, 1999, December 31, 2000 or December 31, 2001.

33. Subsequent events

Sale of Shares to Templeton Strategic Emerging Markets Fund LDC ("Templeton")

On January 4, 2002, certain shareholders entered into an agreement to sell a total of 518,000 of WBD Foods' shares, constituting approximately 1.48% of WBD Foods's outstanding shares, to Templeton for a total amount of $9,990,666, or $19.2870 per share. Under this agreement, Templeton was given a put option by WBD Foods exercisable from January 1, 2003, through February 1, 2003 which enables Templeton to put these shares to WBD Foods. The put price is $19.2870 per share, plus the cost of a bank guarantee incurred by Templeton limited to 3% of the $19.2870 per share price. The put option terminated in February 2002 upon the consummation of WBD Foods' initial public offering.

Initial public offering

In February 2002, WBD Foods completed its initial public offering. WBD Foods issued and sold 9,000,000 new ordinary shares at an initial offering price of $19.50 per share for total consideration, net of underwriting discount, of $166,725. WBD Foods' selling shareholders sold 3,213,001 ordinary shares at an initial offering price of $19.50 per share for total consideration, net of underwriting discount, of $59,521.

Item 19 Exhibits

1.1 Charter of WBD OJSC is incorporated herein by reference to Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

2.1 Deposit Agreement, dated January 17, 2002, by and among the Company, the Depositary, and the holders and beneficial owners from time to time of the ADRs

4.1 Contract No. P21021, dated January 1, 2002, by and between PJSC Lianozovo Dairy and JSC Tetra Pak AO.

4.2 Contract No. P21020, dated January 1, 2002, by and between ZAO Wimm-Bill-Dann Purchaser and JSC Tetra Pak AO

4.3 Underwriting Agreement, dated as of February 8, 2002 among Open Joint-Stock Company Wimm Bill Dann Foods, the Selling Shareholders and the Underwriters

4.4 Exchange Agreement No. B-01, dated April 4, 2001, by and between Moscow Baby Food Plant and Mikhail Vishnyakov is incorporated herein by reference to Exhibit 10.2 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.5 Exchange Agreement No. B-02, dated April 4, 2001, by and between Lianozovo Dairy Plant and Mikhail Vishnyakov is incorporated herein by reference to Exhibit 10.3 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.6 Exchange Agreement No. B-03, dated April 4, 2001, by and between Lianozovo Dairy Plant and Mikhail Dubinin is incorporated herein by reference to Exhibit 10.4 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.7 Exchange Agreement No. B-04, dated April 4, 2001, by and between Lianozovo Dairy Plant and Alexander Orlov is incorporated herein by reference to Exhibit 10.5 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.8 Exchange Agreement No. B-05, dated April 4, 2001, by and between Lianozovo Dairy Plant and Sergei Plastinin is incorporated herein by reference to Exhibit 10.6 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.9 Exchange Agreement No. B-06, dated April 4, 2001, by and between Lianozovo Dairy Plant and Gavril Yushvaev is incorporated herein by reference to Exhibit 10.7 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.11 Exchange Agreement No. TsK-01, dated April 5, 2001, by and between Lianozovo Dairy Plant and Mikhail Vishnyakov is incorporated herein by reference to Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.12 Exchange Agreement No. TsK-02, dated April 5, 2001, by and between Lianozovo Dairy Plant and Mikhail Dubinin is incorporated herein by reference to Exhibit 10.10 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.13 Exchange Agreement No. TsK-03, dated April 5, 2001, by and between Lianozovo Dairy Plant and Alexander Orlov is incorporated herein by reference to Exhibit 10.11 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.14 Exchange Agreement No. TsK-04, dated April 5, 2001, by and between Lianozovo Dairy Plant and Sergei Plastinin is incorporated herein by reference to Exhibit 10.12 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.15 Exchange Agreement No. TsK-05, dated April 5, 2001, by and between Lianozovo Dairy Plant and Aleksandrs Timohins is incorporated herein by reference to Exhibit 10.13 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.16 Exchange Agreement No. TsK-06, dated April 5, 2001, by and between Lianozovo Dairy Plant and Gavril Yushvaev is incorporated herein by reference to Exhibit 10.14 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.17 Exchange Agreement No. TsK-07, dated April 5, 2001, by and between Lianozovo Dairy Plant and Evgeny Yaroslavsky is incorporated herein by reference to Exhibit 10.15 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

4.18 Contract No. P01018, dated Jan. 1, 2001, by and between Lianozovo Dairy Plant and Tetra Pak A/O is incorporated herein by reference to Exhibit 10.16 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

7.1 Statement on Computation of Earnings to Fixed Charge Ratio

8.1 Subsidiaries of WBD OJSC is incorporated herein by reference to Exhibit 21.1 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

10.1 Amended and Restated Partnership and Cooperation Agreement is incorporated herein by reference to Exhibit 99.1 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

10.2 Consent of Independent Auditors

99.1 Letter to the Commission

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

WIMM-BILL-DANN FOODS OJSC

By: ______________________________________
Name: Sergei A. Plastinin
Title: Chairman of the Management Board

Date: June __, 2002